

# Exhibit A

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

[Mark One]

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number  
01-13697

**MOHAWK INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

52-1604305

(I.R.S. Employer  
Identification No.)

160 S. Industrial Blvd.  
(Address of principal executive offices)

Calhoun Georgia

30701  
(Zip Code)

Registrant's telephone number, including area code: (706) 629-7721  
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value	MHK	New York Stock Exchange
Floating Rate Notes due 2020		New York Stock Exchange
Floating Rate Notes due 2021		New York Stock Exchange
2.000% Senior Notes due 2022		New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act Yes ☐ No ☒Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐  
Non-accelerated filer ☐ Smaller reporting company ☐  
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the Common Stock of the Registrant held by non-affiliates (excludes beneficial owners of more than 10% of the Common Stock) of the Registrant (59,424,324 shares) on June 28, 2019 (the last business day of the Registrant's most recently

completed fiscal second quarter) was \$8,763,305,060. The aggregate market value was computed by reference to the closing price of the Common Stock on such date.

Number of shares of Common Stock outstanding as of February 25, 2020: 71,672,772 shares of Common Stock, \$.01 par value. Mohawk Industries, Inc. common stock trades on the New York Stock Exchange under symbol MHK.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement for the 2020 Annual Meeting of Stockholders-Part III.

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Unless this Form 10-K indicates otherwise or the context otherwise requires, the terms “we,” “our,” “us,” “Mohawk,” or “the Company” as used in this Form 10-K refer to Mohawk Industries, Inc.

**General**

Mohawk is a leading global flooring manufacturer that creates products to enhance residential and commercial spaces around the world. The Company’s vertically integrated manufacturing and distribution processes provide competitive advantages in carpet, rugs, ceramic tile, laminate, wood, stone, luxury vinyl tile (“LVT”) and sheet vinyl flooring. The Company’s industry-leading innovation develops products and technologies that differentiate its brands in the marketplace and satisfy all flooring-related remodeling and new construction requirements. The Company’s brands are among the most recognized in the industry and include American Olean®, Daltile®, Durkan®, Eliane®, Feltex®, Godfrey Hirst®, IVC®, Karastan®, Marazzi®, Mohawk®, Pergo®, Quick-Step® and Unilin®. During the past two decades, the Company has transformed its business from an American carpet manufacturer into the world’s largest flooring company with operations in Australia, Brazil, Canada, Europe, India, Malaysia, Mexico, New Zealand, Russia and the United States. The Company had annual net sales in 2019 of \$10.0 billion. Approximately 60% of this amount was generated by sales in the United States and approximately 40% was generated by sales outside the United States. The Company has three reporting segments, Global Ceramic, Flooring North America (“Flooring NA”) and Flooring Rest of the World (“Flooring ROW”) with their 2019 net sales representing 36%, 39% and 25%, respectively, of the Company’s total. Selected financial information for the three segments, geographic net sales and the location of long-lived assets are set forth in Note 17-Segment Reporting.

The Global Ceramic Segment designs, manufactures, sources, distributes and markets a broad line of ceramic, porcelain and natural stone tile products used for floor and wall applications in residential and commercial channels for both remodeling and new construction. In addition, the Global Ceramic Segment manufactures, sources and distributes other products, including natural stone, quartz and porcelain slab countertops, as well as installation materials. The Global Ceramic Segment markets and distributes its products under various brands, including the following: American Olean, Daltile, Eliane, EmilGroup®, KAI®, Kerama Marazzi, Marazzi and Ragno®. The Segment sells its products through company-owned and franchised operations, independent distributors, home centers, floor covering retailers, ceramic specialists, commercial contractors and commercial end users. The Global Ceramic Segment operations are vertically integrated from the production of raw material for body and glaze preparation to the manufacturing and distribution of ceramic and porcelain tile.

The Flooring NA Segment designs, manufactures, sources and distributes a broad range of floor covering products in a variety of colors, textures and patterns for both residential and commercial remodeling and new construction channels. The Segment’s product lines include broadloom carpet, carpet tile, rugs and mats, carpet pad, laminate, medium-density fiberboard (“MDF”), wood flooring, LVT and sheet vinyl. The Flooring NA Segment markets and distributes its flooring products under various brands, including the following: Aladdin Commercial®, Durkan, IVC, Karastan, Mohawk, Mohawk Group®, Mohawk Home®, Pergo, Portico® and Quick-Step. The Segment sells its products through floor covering retailers, distributors, home centers, mass merchants, department stores, e-commerce retailers, shop at home, buying groups, builders, commercial contractors and commercial end users.

The Flooring ROW Segment designs, manufactures, sources and distributes a wide variety of laminate, LVT and sheet vinyl, wood flooring, broadloom carpet and carpet tile collections used in the residential and commercial markets for both remodeling and new construction. In addition, the Flooring ROW Segment manufactures roofing panels, insulation boards, mezzanine flooring, MDF and chipboards primarily for the European market. The Segment also licenses certain patents related to flooring manufacturing throughout the world. The Segment markets and distributes its products under various brands, including the following: Balterio®, Feltex, Godfrey Hirst, Hycraft®, IVC, Leoline®, Moduleo®, Pergo, Quick-Step, Unilin and Xtratherm®. The Segment sells its products through floor covering retailers, wholesalers, company operated distributors independent distributors and home centers.

**Business Strategy**

Mohawk’s Business Strategy provides a consistent vision for the organization and focuses employees around the globe on key priorities. The strategy is cascaded down through the organization with an emphasis on five key points:

- Optimizing the Company’s position as the industry’s preferred provider by delivering exceptional value to customers
- Treating employees fairly to retain the best organization

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- Driving innovation in all aspects of the business
- Taking reasonable, well considered risks to grow the business
- Enhancing the communities in which the Company operates

The Mohawk Business Strategy provides continuity for the Company's operating principles and ensures a focus on exceeding customer expectations.

## **Strengths**

### ***Market Position***

Mohawk's fashionable and innovative products, successful participation in all sales channels, creative marketing programs and extensive sales resources have enabled the Company to build market leadership positions in multiple geographies, primarily North America, Brazil, Europe, Russia and Australasia, as well as to export products to more than 170 countries. In North America, Mohawk's largest marketplace, the Company has leveraged its brands, broad offering and award-winning merchandising to build strong positions across all product categories. In Europe and Russia, similar advantages have supported market leadership in ceramic, premium laminate and sheet vinyl. The Company also has established a strong position in the fast-growing LVT market in the U.S. and Europe following the 2015 acquisition of IVC and subsequent investments to expand production. The 2018 acquisition of Godfrey Hirst provided the Company with the largest market position in carpet in Australasia to complement the leading hard surface presence that the Company had grown through its earlier acquisitions of national distributors in both Australia and New Zealand. In 2018, the Company acquired Eliane, a leading ceramic tile manufacturer in Brazil, the world's third largest ceramic market. The Eliane brand is highly regarded for innovative design and strength in high-end porcelain floor and wall tile. The Company believes Eliane is Brazil's largest ceramic tile exporter.

### ***Product Innovation***

Mohawk drives performance through innovation and process improvements across all product categories. In ceramic, this includes proprietary Reveal Imaging® printing that replicates the appearance of other surfaces, such as long planks with the visuals and texture of natural wood as well as tiles that mimic natural stone, cement, textiles and other alternatives. The Company has patented an innovative new Clic-Fit™ installation technology for its Revo-Tile™ collection that significantly reduces the time and cost to install ceramic tile flooring. In Italy and Russia, the Company manufactures large-scale porcelain slabs that replicate the look of stone but are harder and more durable. The slabs are being sold in the European and North American markets and are used for floors, walls and countertops. In the U.S., the Company has begun to manufacture quartz countertops that, along with its stone and porcelain slabs, provide customers with a comprehensive array of surface options. In carpet, the Company introduced the unique Air.o™ unified soft surface collection that integrates a polyester pad into tufted carpet, offering consumers a hypoallergenic and moisture-resistant alternative to traditional carpet. The Company's exclusive fiber technologies include the proprietary bio-based SmartStrand® and its brand extensions that represented the first super-soft stain-resistant products on the market and the patented Continuum™ process that adds bulk and softness to polyester fiber, differentiating the Company's products in this fast-growing component of the carpet market. These fiber advantages have been extended into the Company's rug production, as well, adding luxurious feel and performance enhancements to the Company's design leadership. In laminate, the Company's installation technology revolutionized the category, and the Company continues to deliver new innovations such as unique HydroSeal™ water-resistance that has extended the category into kitchens and baths, more realistic visuals with GenuEdge® pressed bevel edges and surface embossing in register that precisely recreates the appearance of wood. In wood flooring, the Company is producing longer and wider planks in increasingly popular engineered collections, as well as introducing more fashion-forward stains, finishes and surface protection. The Company's vinyl offerings reflect significant investments in leading-edge technology that yield incredibly realistic reproductions of stone, wood and other materials with embossed finishes that accentuate the beauty of the products.

### ***Operational Excellence***

Mohawk's highly efficient manufacturing and distribution assets serve as the foundation for successful growth. By leveraging continuous process improvement and automation, the Company's operations drive innovation, quality and value. Through its commitment to sustainability practices, the Company has also optimized natural resources and raw materials. Since 2013, the Company has invested to expand capacity, introduce differentiated new products and improve efficiencies. In particular, the Company's capital investments have improved recently acquired businesses by upgrading their product offerings, expanding their distribution and improving their productivity. For more than a decade, Mohawk's training and development programs have been ranked among the best by *Training* magazine, and *Forbes* has designated Mohawk as one of the Best Large U.S. Employers.

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## ***Sustainability***

The Company believes that it is the industry leader in sustainable products and processes. The Company's extensive use of recycled content in its products includes the annual use of more than 6.5 billion plastic bottles to create polyester carpet fiber and more than 42 million pounds of tires to produce decorative crumb rubber mats. In all, the Company diverts more than 6.5 billion pounds of waste from landfills each year, with 51 of the Company's manufacturing sites internally certified as Zero Process Waste to Landfill facilities. The Company's commitment to sustainability extends beyond its products to resource utilization, including a 442-million-gallon reduction in water use since 2015, lower greenhouse gas emissions and increased energy efficiency. The Company also produces energy through solar panels, windmills and a waste-to-energy program using scrap material. The Company's commitment to safety and wellness helps to retain a talented workforce. The Company currently operates 19 on-site, near-site or virtual Healthy Life Centers to assist employees with management of chronic conditions as well as the treatment of acute illness. The Company's annual sustainability report details these and other initiatives and may be accessed at <http://www.mohawksustainability.com>.

## **Sales and Distribution**

### ***Global Ceramic Segment***

The Global Ceramic Segment designs, markets, manufactures, distributes and sources a broad line of ceramic tile, porcelain tile and natural stone products, including natural stone, quartz and porcelain slab countertops. Products are distributed through various channels, including independent distributors, home centers, Company-operated service centers and stores, ceramic specialists, commercial contractors and directly to commercial end users. The business is organized with dedicated sales forces to address the specific customer needs of each distribution channel.

The Company provides customers with one of the ceramic tile industry's broadest product lines—a complete selection of glazed floor tile, glazed wall tile, mosaic tile, porcelain tile, quarry tile, porcelain landscaping pavers, porcelain roofing, stone products, porcelain slab countertops, quartz countertops and installation products. In addition to products manufactured by the Company's ceramic tile business, the Company also sources products from other manufacturers to enhance its product offering.

The Global Ceramic Segment markets its products under the American Olean, Daltile, Eliane, EmilGroup, KAI, Kerama Marazzi, Marazzi and Ragno brand names. These brands are supported by a fully integrated marketing program, displays, merchandising boards, literature, catalogs and websites. Innovative design, quality and response to changes in customer preference enhances recognition in the marketplace. The Company is focused on sales growth opportunities through innovative products and programs in both the residential and commercial channels for both remodeling and new construction.

The Global Ceramic Segment utilizes various distribution methods including regional distribution centers, service centers, direct shipping and customer pick-up from manufacturing facilities. The Segment's sales forces are organized by product type and sales channels in order to best serve each type of customer. The Company believes its distribution methods for the Global Ceramic Segment provide high-quality customer service and enhance its ability to plan and manage inventory requirements.

### ***Flooring NA Segment***

Through its Flooring NA Segment, the Company designs, markets, manufactures, distributes and sources broadloom carpet, carpet tile, carpet pad, rugs, laminate, LVT, sheet vinyl and wood flooring in a broad range of colors, textures and patterns. The Flooring NA Segment positions product lines in all price ranges and emphasizes quality, style, performance and service. The Flooring NA Segment markets and distributes its product lines to independent distributors, floor covering retailers, home centers, mass merchandisers, department stores, e-commerce retailers, shop at home, buying groups, commercial contractors and commercial end users. Some products are also marketed through private labeling programs. Sales to customers focused on residential products represent a significant portion of the total industry and the majority of the Segment's sales.

The Company has positioned its brand names across all price ranges. IVC, Karastan, Mohawk, Mohawk Home, Pergo, Portico and Quick-Step are positioned to sell in the residential flooring markets. Aladdin Commercial and Mohawk Group are positioned to sell in the commercial market, which is made up of corporate office space, educational facilities, institutional facilities, healthcare/assisted living facilities and retail space. The Company also sells into the commercial hospitality space (hotels, restaurants, gaming facilities, etc.) under its Durkan brand.

The Segment's sales forces are generally organized by sales channels to best serve each type of customer. Product delivery to independent dealers is facilitated predominantly on Mohawk trucks operating from a strategically positioned national network of warehouses and cross-docks that receive inbound product directly from the Company's manufacturing operations.

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### *Flooring ROW Segment*

The Flooring ROW Segment designs, manufactures, markets, licenses, distributes and sources laminate, LVT, sheet vinyl, wood flooring, broadloom carpet and carpet tile. It also designs and manufactures roofing panels, insulation boards, MDF and chipboards. Products are sold through separate distribution channels, consisting of retailers, independent distributors, company-operated distributors, wholesalers, home centers, commercial contractors and commercial end users. The business is organized to address the specific customer needs of each distribution channel.

The Flooring ROW Segment markets and sells laminate, LVT, sheet vinyl, broadloom carpet, carpet tile and wood under the Balterio, Feltex, Godfrey Hirst, Hycraft, IVC, Leoline, Moduleo, Pergo and Quick-Step brands. The Flooring ROW Segment also sells private label laminate, wood and vinyl flooring products. The Company believes Quick-Step and Pergo are leading brand names in the European flooring industry, and that Godfrey Hirst and Feltex are leading brand names in the Australasian flooring market. In addition, the Flooring ROW Segment markets and sells insulation boards, roof panels, MDF and chipboards in Europe under the Unilin and Xtratherm brands. The Segment also licenses its intellectual property to flooring manufacturers throughout the world.

The Company uses regional distribution centers and direct shipping from manufacturing facilities to provide high-quality customer service and enhance the Company's ability to plan and manage inventory requirements.

### **Advertising and Promotion**

The Company's brands are among the best known and most widely distributed in the industry. The Company vigorously supports the value and name recognition of its brands through traditional advertising channels, including numerous trade publications and unique promotional events that highlight product design and performance, as well as social media initiatives and Internet-based advertising. The Company has invested significantly in websites that educate consumers about the Company's products, helping them to make informed decisions about purchases, and that identify local retailers that offer the Company's collections. The Company offers its customers the award-winning Omnify™, a new Internet platform that automatically syncs updated product and sales information between the Company and its U.S. aligned retailer websites, ensuring that consumers have access to the most accurate and timely information.

In North America, the Company actively supports well known programs as Susan G. Komen® (breast cancer research), Habitat for Humanity® (housing for low income families), HomeAid® (housing for homeless families) and Operation Finally Home® (housing for disabled veterans), which include marketing partnerships that showcase the Company's products and highlight its corporate values. The Company also sponsors a European cycling team to promote its Quick-Step brand through logo placements and use of the team in its advertising and point-of-sale displays.

The Company introduces new products, merchandising and marketing campaigns through participation in regional, national and international trade shows as well as at exclusive dealer conventions. The Company supports sales with its retail customers through cooperative advertising programs that extend the reach of the Company's promotion as well as with innovative merchandising displays that highlight the Company's differentiated products and provide samples to consumers. The cost of providing merchandising displays, product samples and point of sale promotional marketing, is partially recovered by the purchase of these items by the Company's customers.

### **Manufacturing and Operations**

#### *Global Ceramic Segment*

The Company's ceramic tile manufacturing operations are vertically integrated from the production of raw material for body and glaze preparation to the manufacturing and distribution of ceramic and porcelain tile and quartz countertop. The Company believes that its manufacturing organization's leading-edge technology offers competitive advantages due to its ability to create a differentiated product line consisting of one of the industry's broadest offerings of colors, textures and finishes, as well as the industry's largest offering of trim and decorative pieces. In addition, the Global Ceramic Segment also sources a portion of its collections to enhance its product offerings. The Global Ceramic Segment continues to invest in equipment that utilizes the latest technologies, which supports the Company's efforts to increase manufacturing capacity, improve efficiency, meet the growing demand for its innovative products and develop new capabilities.



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### *Flooring NA Segment*

The Company's carpet and rug manufacturing operations are vertically integrated and include the extrusion of triexta, nylon, polyester and polypropylene resins, as well as recycled post-consumer plastics, into fiber. The Flooring NA Segment is also vertically integrated in yarn processing, carpet backing manufacturing, tufting, weaving, dyeing, coating and finishing.

The Segment is also vertically integrated with significant manufacturing assets that produce laminate flooring, high density fiber board, wood flooring, fiberglass sheet vinyl and luxury vinyl tile. The Flooring NA Segment continues to invest in capital projects, such as the expansion of the Company's North American LVT and premium laminate manufacturing capacity. Other investments in state-of-the-art equipment support market growth, increase manufacturing efficiency and improve overall cost competitiveness.

### *Flooring ROW Segment*

The Company's laminate and vinyl flooring manufacturing operations in Europe are vertically integrated. The Company believes its Flooring ROW Segment has advanced equipment that results in competitive manufacturing in terms of cost and flexibility. In addition, the Flooring ROW Segment has significant manufacturing capability for wood flooring, LVT and sheet vinyl. The 2018 acquisition of Godfrey Hirst established vertically integrated broadloom carpet and carpet tile operations in Australia and New Zealand, including the production of wool yarn. The Flooring ROW Segment is also vertically integrated in manufacturing, tufting, weaving, dyeing, coating and finishing.

The Flooring ROW Segment continues to invest in capital expenditures, such as LVT and laminate expansions, as well as new carpet tile and sheet vinyl plants in Europe and Russia, respectively, utilizing the latest advances in technologies to increase manufacturing capacity, improve efficiency and develop new capabilities including state-of-the-art, fully integrated production that will leverage the Company's proven record of bringing innovative and high-quality products to its markets. The manufacturing facilities for roofing panels, insulation boards, MDF and chipboards in the Flooring ROW Segment are all configured for cost-efficient manufacturing and production flexibility and are competitive in the European market.

## **Inputs and Suppliers**

### *Global Ceramic Segment*

The principal raw materials used in the production of ceramic tile are clay, talc, industrial minerals and glazes. The Company has long-term clay mining rights in North America, Russia, Bulgaria and Brazil that satisfy a portion of its clay requirements for producing tile. The Company also purchases a number of different grades of clay for the manufacture of its tile. Glazes are used on a significant percentage of manufactured tiles. Glazes consist of frit (ground glass), zircon, stains and other materials, with frit being the largest component. The Company manufactures a significant amount of its frit requirements. The Company believes that there is an adequate supply of all grades of clay, talc and industrial minerals that are readily available from a number of independent sources. If these suppliers were unable to satisfy the Company's requirements, the Company believes that alternative supply arrangements would be available.

### *Flooring NA Segment*

The principal raw materials used in the production of carpet and rugs are polypropylene, polyester, triexta, nylon, caprolactam, recycled post-consumer plastics, synthetic backing materials, latex and various dyes and chemicals, the majority of which are petroleum based. The Company uses wood chips, wood veneers, lumber, paper and resins in its production of laminate and wood products. In its vinyl flooring operations, the Company uses glass fiber, plasticizers and polyvinyl chloride (PVC) resins. Major raw materials used in the Company's manufacturing process are available from independent sources, and the Company obtains most of its raw materials from major suppliers that provide inputs to each major product category. If these suppliers were unable to satisfy the requirements, the Company believes that alternative supply arrangements would be available. Although the market for raw materials is sensitive to temporary disruptions, the North American flooring industry has not experienced a significant shortage of raw materials in recent years.

### *Flooring ROW Segment*

The principal raw materials used in the production of boards, laminate and wood flooring are wood, paper and resins. The wood suppliers provide a variety of wood species, providing the Company with a cost-effective and secure supply of raw material. In its vinyl flooring operations, the Company uses glass fiber, plasticizers and PVC resins. Major raw materials used in the Company's manufacturing process are available from independent sources, and the Company has long-standing relationships

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with a number of suppliers. The principal raw materials used in the production of broadloom carpet and carpet tile are polypropylene, polyester, triexta, nylon, caprolactam, recycled post-consumer plastics, synthetic backing materials, latex and various dyes and chemicals, the majority of which are petroleum based. Although the market for raw materials is sensitive to temporary disruptions, the flooring industry has not experienced a significant shortage of raw materials in recent years. If these suppliers were unable to satisfy the requirements, the Company believes that alternative supply arrangements would be available.

[Table of Contents](#)[Index to Financial Statements](#)**Industry and Competition**

The Company is the largest flooring manufacturer in a fragmented industry composed of a wide variety of companies ranging from small, privately-held firms to large multinationals. In 2018, the U.S. floor covering industry reported \$27.2 billion in sales, up approximately 5.7% over 2017's sales of \$25.7 billion. In 2018, the primary categories of flooring in the U.S., based on sales, were carpet and rugs (43.1%), resilient (includes sheet vinyl and LVT) and rubber (20.5%), ceramic tile (14.4%), wood (13.0%), stone (5.6%) and laminate (3.4%). In 2018, the primary categories of flooring in the U.S., based on square feet, were carpet and rugs (48.1%), resilient (includes sheet vinyl and LVT) and rubber (24.6%), ceramic tile (14.4%), wood (7.2%), laminate (4.2%) and stone (1.5%). Each of these categories is influenced by the residential and commercial construction and residential and commercial remodeling end-use markets. These markets are influenced by many factors including changing consumer preferences, consumer confidence, spending for durable goods, interest rates, inflation, availability of credit, turnover in housing and the overall strength of the economy.

The principal methods of competition within the floor covering industry generally are product innovation, style, quality, price, performance technology and service. In each of the markets, price and market coverage are particularly important when competing among product lines. The Company actively seeks to differentiate its products in the marketplace by introducing innovative products with premium features that provide a superior value proposition. The Company's investments in manufacturing technology, computer systems and distribution network, as well as the Company's marketing strategies and resources, contribute to its ability to compete on the basis of performance, quality, style and service, rather than price.

*Global Ceramic Segment*

Globally, the ceramic tile industry is significantly fragmented. Certain regions around the world have established sufficient capacity to allow them to meet domestic needs in addition to exporting product to other markets where their design and/or technical advantages may drive consumer preferences. Some mature markets have seen industry consolidation driven by mergers and acquisitions, however most markets are comprised of many relatively small manufacturers all working with similar technologies, raw materials and designs. During 2018, the estimated global capacity for ceramic tile was 141 billion square feet - down slightly from the prior year primarily due to reduced production in China - with selling prices varying widely based on many factors, including supply within the market, materials used, size, shape and design. While the Company operates ceramic manufacturing facilities in eight countries, the Company has leveraged advantages in technology, design, brand recognition and marketing to extend exports of its products to approximately 160 countries. As a result of this global sales strategy, the Company faces competition in the ceramic tile market from a large number of foreign and domestic manufacturers, all of which compete for sales of ceramic tile to customers through multiple residential and commercial channels. The Company believes it is the largest manufacturer, distributor and marketer of ceramic tile in the world. The Company also believes it is the largest manufacturer, distributor and marketer of ceramic tile in specific markets, including the U.S., Europe and Russia, as well as maintaining leading positions in the Mexican and Brazilian markets. The Company has leveraged the advantages of its scale, product innovation and unique designs in these markets to solidify its leadership position, however the Company continues to face pressures in these markets from imported ceramic products as well as alternate flooring categories.

*Flooring NA Segment*

The North American flooring industry is highly competitive, with an increasing variety of product categories, shifting consumer preferences and pressures from imported products, particularly in the rug and hard surface categories. Based on industry publications, in 2018, the U.S. flooring industry had carpet and rug sales in excess of \$11.7 billion out of the overall \$27.2 billion market. Based on its 2018 net sales, the Company believes it is the largest producer of rugs and the second largest producer of carpet in the world. The Company differentiates its carpet and rug products in the market place through proprietary fiber systems, state-of-the-art manufacturing technologies and unique styling as well as leveraging the strength of some of the oldest and best known brands in the industry. The Company also believes it is the largest manufacturer and distributor of laminate flooring in the U.S. as well as one of the largest manufacturers and distributors of wood flooring. The Company's leading position in laminate flooring is driven by the strength of its premium brands as well as technical innovations such as water resistance, realistic visuals, beveled edges, deeply embossed in register surfaces and patented installation technologies. The U.S. resilient industry is highly competitive, and according to industry publications, grew more than 29% in 2018. Based on industry publications, in 2018 LVT and sheet vinyl generated sales of \$5.3 billion out of the \$27.2 billion total U.S. flooring market. The Company believes that it is one of the largest manufacturers and distributors of LVT and sheet vinyl in the U.S. The Company's sheet vinyl operations produce fiberglass backed products, which have proven more popular with consumers in the past several years due to superior performance and durability.

[Table of Contents](#)[Index to Financial Statements](#)*Flooring ROW Segment*

The Company faces competition in the non-U.S. laminate, wood, LVT and sheet vinyl flooring business from a large number of domestic manufacturers as well as pressures from imports. The Company believes it is one of the largest manufacturers and distributors of laminate flooring in the world, with a focus on premium products, which the Company supplies under some of the best-known and most widely marketed brands in its regions. In addition, the Company believes it has a competitive advantage in its laminate flooring markets as a result of the Company's industry-leading water resistance, realistic visuals and embossed-in-register surfaces as well as patented installation technologies, all of which allow the Company to differentiate its products in the areas of design, performance, installation and assembly. In wood flooring, the Company has extended the strength of its well-known laminate brands and its installation technologies to add value to its wood collections. The Company faces competition in the non-U.S. vinyl flooring channel from a large number of domestic and foreign manufacturers, but believes it has a competitive advantage in its LVT and sheet vinyl markets due to industry-leading design, patented technologies, brand recognition and vertical integration. The Company has elevated the performance of its sheet vinyl collections and is now aggressively placing the product in commercial applications. After initially extending its geographic footprint by acquiring national hard surface distributors in Australia and New Zealand, the Company acquired Godfrey Hirst in 2018, making the Company the largest manufacturer of carpet in both countries. The Company has integrated its soft and hard surface businesses to provide a comprehensive offering to residential and commercial customers in the region. In Australia and New Zealand, the Company faces competition from a large number of domestic and foreign manufacturers, but believes it has a competitive advantage in its carpet and hard surface offering due to industry-leading design, patented technologies, brand recognition and vertical integration of manufacturing and distribution. Through the 2015 acquisition of Xtratherm, the Company has extended its insulation panel business to the U.K. and Ireland while expanding sales in its core Benelux Region. The Company also expanded its European mezzanine flooring offering by acquiring German-based Berghoef in 2018.

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## **Patents and Trademarks**

Intellectual property is important to the Company's business and the Company relies on a combination of patent, copyright, trademark and trade secret laws to protect its interests.

The Company uses several trademarks that it considers important in the marketing of its products, including American Olean, Daltile, Durkan, EmilGroup, Feltex, Godfrey Hirst, IVC, Karastan, Leoline, Marazzi, Moduleo, Mohawk, Mohawk Group, Mohawk Home, Pergo, Quick-Step and Unilin. These trademarks reflect innovations in design, performance and installation, which represent competitive advantages and provide differentiation from competing brands in the market.

The Flooring ROW Segment owns a number of patent families in Europe and the U.S., some of which the Company licenses to manufacturers throughout the world. The Company continues to explore additional opportunities to generate revenue from its patent portfolio.

## **Sales Terms and Major Customers**

The Company's sales terms are substantially the same as those generally available throughout the industry. The Company generally permits its customers to return products purchased from it within specified time periods from the date of sale, if the customer is not satisfied with the quality of the product.

During 2019, no single customer accounted for more than 10% of the Company's total net sales, and the top 10 customers accounted for less than 20% of the Company's total net sales. The Company believes the loss of one major customer would not have a material adverse effect on its business.

## **Employees**

As of December 31, 2019, the Company employed approximately 41,800 persons, consisting of approximately 20,300 in the United States, approximately 10,100 in Europe, approximately 3,600 in Mexico, approximately 4,300 in Russia and approximately 3,500 in other countries. The majority of the Company's European, Russian and Mexican manufacturing employees are members of unions. Less than 1% of the Company's U.S. employees are party to a collective bargaining agreement. Additionally, the Company has not experienced any major strikes or work stoppages in recent years. The Company believes that its relations with its employees are good.

## **Available Information**

The Company's Internet address is <https://www.mohawkind.com>. The Company makes available the following reports it files on its website, free of charge, under the heading "Investors":

- annual reports on Form 10-K;
- quarterly reports on Form 10-Q;
- current reports on Form 8-K; and
- amendments to the foregoing reports.

The foregoing reports are made available on the Company's website as soon as practicable after they are filed with, or furnished to, the Securities and Exchange Commission ("SEC").

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#### **Item 1A. Risk Factors**

In addition to the other information provided in this Form 10-K, the following risk factors should be considered when evaluating an investment in shares of the Company's Common Stock. If any of the events described in these risks were to occur, it could have a material adverse effect on the Company's business, financial condition and results of operations.

***The floor covering industry is sensitive to changes in general economic conditions, such as consumer confidence, income and spending, corporate and government spending, interest rate levels, availability of credit and demand for housing. Significant or prolonged declines in the U.S. or global economies could have a material adverse effect on the Company's business.***

Downturns in the U.S. and global economies negatively impact the floor covering industry and the Company's business. During times of economic uncertainty or decline, end consumers tend to spend less on remodeling their homes, which is how the Company derives a majority of its sales. Likewise, new home construction - and the corresponding need for new flooring materials - tends to slow down during recessionary periods. There may be downturns in the foreseeable future that could cause the industry to deteriorate globally or in the local markets in which the Company operates. A significant or prolonged decline in residential or commercial remodeling or new construction activity could have a material adverse effect on the Company's business and results of operations.

***The Company may be unable to predict customer preferences or demand accurately, or to respond to technological developments.***

The Company operates in a market sector where demand is strongly influenced by rapidly changing customer preferences as to product design, product category and technical features. Failure to quickly and effectively respond to changing customer demand or technological developments could have a material adverse effect on the business.

***The Company faces intense competition in the flooring industry that could decrease demand for the Company's products or force it to lower prices, which could have a material adverse effect on the Company's business.***

The floor covering industry is highly competitive. The Company faces competition from a number of manufacturers and independent distributors. Some of the Company's competition is from companies located outside of the United States, and these competitors may benefit from lower input costs or state subsidies. Also, trade tariffs may impact both the Company and our competitors in different and unpredictable ways. Maintaining the Company's competitive position may require substantial investments in the Company's product development efforts, manufacturing facilities, distribution network and sales and marketing activities. Competitive pressures may also result in decreased demand for the Company's products, force the Company to lower prices or prevent the Company from raising prices to keep up with inflation. Moreover, fluctuations in currency exchange rates and input costs may contribute to more attractive pricing for imports that compete with the Company's products, which may put pressure on the Company's pricing. Any of these factors could have a material adverse effect on the Company's business.

***Changes in the global economy could affect the Company's overall availability and cost of credit.***

A downturn in the U.S. or global economies could impact the Company's ability to obtain financing in the future, including any financing necessary to refinance existing indebtedness.

Further, negative economic conditions may factor into the Company's periodic credit ratings assessment by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Financial Services, LLC ("S&P") and Fitch, Inc. Any future changes in the credit rating agencies' methodology in assessing the Company's credit strength and any downgrades in the Company's credit ratings could increase the cost of its existing credit and could adversely affect the cost of and ability to obtain additional credit in the future. The Company can provide no assurances that downgrades will not occur. The cost and availability of credit during uncertain economic times could have a material adverse effect on the Company's financial condition.

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***If the Company were unable to meet certain covenants contained in its existing credit facilities, it may be required to repay borrowings under the credit facilities prior to their maturity and may lose access to the credit facilities for additional borrowings that may be necessary to fund its operations and growth strategy.***

On October 18, 2019, the Company entered into a \$1,800 million, senior revolving credit facility (the “Senior Credit Facility”). As of December 31, 2019, the amount utilized under the Senior Credit Facility was \$733.5 million resulting in a total of \$1,066.5 million available. The amount utilized included \$693.9 million of commercial paper issued, \$16.8 million of direct borrowings, and \$22.8 million of standby letters of credit related to various insurance contracts and foreign vendor commitments.

If the Company’s cash flow is worse than expected, the Company may need to refinance all or a portion of its indebtedness through a public and/or private debt offering or a new bank facility and may not be able to do so on terms acceptable to it, or at all. If the Company is unable to access debt markets at competitive rates or in sufficient amounts due to credit rating downgrades, market volatility, market disruption, or weakness in the Company’s businesses, the Company’s ability to finance its operations or repay existing debt obligations may be materially and adversely affected.

Additionally, the Company’s credit facilities include certain affirmative and negative covenants that impose restrictions on the Company’s financial and business operations, including limitations on liens, indebtedness, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, payments and modifications of certain existing debt, future negative pledges, and changes in the nature of the Company’s business. In addition, the Senior Credit Facility requires the Company to maintain a Consolidated Interest Coverage Ratio of at least 3.0 to 1.0 and a Consolidated Net Leverage Ratio of no more than 3.75 to 1.0. A failure to comply with the obligations contained in our current or future credit facilities or indentures relating to our outstanding public debt could result in an event of default or an acceleration of debt under other instruments that may contain cross-acceleration or cross-default provisions. We cannot be certain that we would have, or be able to obtain, sufficient funds to make these accelerated payments.

***Fluctuations in currency exchange rates may impact the Company’s financial condition and results of operations and may affect the comparability of results between the Company’s financial periods.***

The results of the Company’s foreign subsidiaries are translated into U.S. dollars from the local currency for consolidated reporting. The exchange rates between some of these currencies and the U.S. dollar in recent years have fluctuated significantly and may continue to do so in the future. The Company may not be able to manage effectively the Company’s currency translation risks, and volatility in currency exchange rates may have a material adverse effect on the Company’s consolidated financial statements and affect comparability of the Company’s results between financial periods.

***The Company has significant operations in emerging markets, including Brazil, eastern Europe, Malaysia, Mexico and Russia, and therefore has exposure to doing business in potentially unstable areas of the world.***

Operations in emerging markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Market conditions and the political structures that support them are subject to rapid change in these economies, and the Company may not be able to react quickly enough to protect its assets and business operations. In particular, developing markets in which the Company operates may be characterized by one or more of the following:

- complex and conflicting laws and regulations, which may be inconsistently or arbitrarily enforced;
- high incidences of corruption in state regulatory agencies;
- volatile inflation;
- widespread poverty and resulting political instability;
- compliance with laws governing international relations, including U.S. laws that relate to sanctions and corruption;
- immature legal and banking systems;
- uncertainty with respect to title to real and personal property;
- underdeveloped infrastructure;
- heavy state control of natural resources and energy supplies;
- state ownership of transportation and supply chain assets;

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- high protective tariffs and inefficient customs processes; and
- high crime rates.

Changes in any one or a combination of these factors could have a material adverse effect on the Company's business.

***In periods of rising costs, the Company may be unable to pass raw materials, labor, energy and fuel-related cost increases on to its customers, which could have a material adverse effect on the Company's business.***

The prices of raw materials, labor, energy and fuel-related costs vary significantly with market conditions. Although the Company generally attempts to pass on increases in raw material, labor, energy and fuel-related costs to its customers, the Company's ability to do so is dependent upon the rate and magnitude of any increase, competitive pressures and market conditions for the Company's products. There have been in the past, and may be in the future, periods of time during which increases in these costs cannot be recovered. During such periods of time, the Company's business may be materially adversely affected.

***The Company may be unable to obtain raw materials or sourced product on a timely basis, which could have a material adverse effect on the Company's business.***

The principal raw materials used in the Company's manufacturing operations include triexta, nylon, polypropylene, and polyester resins and fibers, which are used in the Company's carpet and rug business; clay, talc, feldspar and glazes, including frit (ground glass), zircon and stains, which are used in the Company's ceramic tile business; wood, paper and resins, which are used in the Company's wood and laminate flooring business; and glass fiber, plasticizers, and pvc resins, which are used in the Company's sheet vinyl and luxury vinyl tile business. In addition to raw materials, the Company sources finished goods. For certain raw materials and sourced products, the Company is dependent on one or a small number of suppliers. An adverse change in the Company's relationship with such a supplier, the financial condition of such a supplier or such supplier's ability to manufacture or deliver such raw materials or sourced products to the Company could lead to an interruption of supply or require the Company to purchase more expensive alternatives. Also, our ability to obtain raw materials or source products at reasonable costs may be impacted by tariffs and global trade uncertainties and international health crises. For example, in December 2019, a strain of coronavirus was reported to have surfaced in China. Because we source certain products from China, including some of our LVT imports, our supply chain may be negatively impacted. While we continue to monitor the situation, the extent to which the coronavirus may impact our supply chain in the near-term is uncertain. An extended interruption in the supply of these or other raw materials or sourced products used in the Company's business or in the supply of suitable substitute materials or products would disrupt the Company's operations, which could have a material adverse effect on the Company's business.

***The Company makes significant capital investments in its business and such capital investments may not be successful or achieve their intended results.***

The Company's business requires significant capital investment to expand capacity to support its growth, introduce new products and improve operating efficiencies. Since 2013, the Company has invested approximately \$4.3 billion in capital projects and will continue to make capital investments in future periods, including between \$560-\$580 million of capital investments in 2020. While the Company believes that many of its past capital investments have been successful, there is no guarantee that the return on investment from the Company's recent or future capital projects will be sufficient to recover the expenses and opportunity costs associated with these projects. Furthermore, a meaningful portion of the Company's capital investment is based on forecasted growth in its business, which is subject to uncertainty such as general economic trends, increased competition and consumer preferences. If the Company does not accurately forecast its future capital investment needs, the Company could have excess capacity or insufficient capacity, either of which would negatively affect its revenues and profitability.

***The Company relies on information systems in managing the Company's operations and any system failure or deficiencies of such systems may have an adverse effect on the Company's business.***

The Company's businesses rely on sophisticated software applications to obtain, process, analyze and manage data. The Company relies on these systems to, among other things:

- facilitate the purchase, management, distribution, and payment for inventory items;
- manage and monitor the daily operations of the Company's distribution network;



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- receive, process and ship orders on a timely basis;
- manage accurate billing to and collections from customers;
- control logistics and quality control for the Company's retail operations;
- manage financial reporting; and
- monitor point of sale activity.

The Company also relies on its computer hardware, software and network for the storage, delivery and transmission of data to the Company's sales and distribution systems, and certain of the Company's production processes are managed and conducted by computer.

Any event that causes interruptions to the input, retrieval and transmission of data or increase in the service time could disrupt our normal operations. There can be no assurance that the Company can effectively carry out our disaster recovery plan to handle the failure of our information systems, or that we will be able to restore our operational capacity within sufficient time to avoid material disruption to our business. The occurrence of any of these events could cause unanticipated disruptions in service, decreased customer service and customer satisfaction, harm to the Company's reputation and loss or misappropriation of sensitive information, which could result in loss of customers, increased operating expenses and financial losses. Any such events could in turn have a material adverse effect on the Company's business, financial condition, results of operations, and prospects.

***The Company is subject to cybersecurity risks and expects to incur increasing costs in an effort to minimize those risks.***

The Company's business employs systems that allow for the secure storage and transmission of customers', consumers', vendors', employees' and its own sensitive and proprietary information. These systems may be subject to computer hacking, acts of vandalism or theft, malware, computer viruses or other malicious codes, phishing, employee error or malfeasance, catastrophes, unforeseen events or other cyber-attacks. Any significant compromise or breach of the Company's data security, whether external or internal, or misuse of customer, consumer, employee, supplier or Company data, could result in significant costs, lost sales, fines, lawsuits, and damage to the Company's reputation. Furthermore, as cyber-attacks become more sophisticated, the Company expects to incur increasing costs to strengthen its systems from outside intrusions and to maintain insurance coverage related to the threat of such attacks. While the Company has implemented administrative and technical controls and has taken other preventive actions to reduce the risk of cyber incidents and protect its information technology, they may be insufficient to prevent, or respond to, physical and electronic break-ins, cyber-attacks or other security breaches to the Company's systems.

In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to the Company's business, compliance with those requirements could also result in additional costs to the Company. Any failure to comply with federal, state or international privacy-related or data protection laws and regulations could result in proceedings against the Company by government entities or others. In addition to reputational impacts, penalties could include significant legal liability.

***The Company's inability to maintain its patent licensing revenues could have a material adverse effect on the Company's business.***

The profit margins of certain of the Company's businesses, particularly the Company's Flooring Rest of the World Segment, depend in part upon the Company's ability to obtain, maintain and license proprietary technology used in the Company's principal product families. The Company has filed and is continuing to file patents relating to many different aspects of the Company's products and associated methods and is generating patent license revenues on these diverse patents; however, certain revenue-producing patents have expired or will expire. The failure to develop alternative revenues to replace expired or invalidated patents in the future could have a material adverse effect on the Company's business.

***The Company may experience certain risks associated with acquisitions, joint ventures and strategic investments.***

The Company intends to grow its business through a combination of organic growth and acquisitions. Growth through acquisitions involves risks, many of which may continue to affect the Company after the acquisition. The Company cannot give assurance that an acquired company will achieve the levels of revenue, profitability and production that the Company expects. Acquisitions may require the issuance of additional securities or the incurrence of additional indebtedness, which may dilute the

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ownership interests of existing security holders or impose higher interest costs on the Company. Additional challenges related to the Company's acquisition strategy include:

- maintaining executive offices in different locations;
- manufacturing and selling different types of products through different distribution channels;
- conducting business from various locations;
- maintaining different operating systems and software on different computer hardware; and
- retaining key employees.

Failure to successfully manage and integrate an acquisition with the Company's existing operations could lead to the potential loss of customers of the acquired business, the potential loss of employees who may be vital to the new operations, the potential loss of business opportunities or other adverse consequences that could have a material adverse effect on the Company's business. Even if integration occurs successfully, failure of the acquisition to achieve levels of anticipated sales growth, profitability, or otherwise perform as expected, may result in goodwill or other asset impairments or otherwise have a material adverse effect on the Company's business. Finally, acquisition targets may be subject to material liabilities that are not properly identified in due diligence and that are not covered by seller indemnification obligation or third party insurance. The unknown liabilities of the Company's acquisition targets may have a material adverse effect on the Company's business.

In addition, the Company has made certain investments, including through joint ventures, in which the Company has a minority equity interest and lack management and operational control. The controlling joint venture partner may have business interests, strategies or goals that are inconsistent with those of the Company. Business decisions or other actions or omissions of the controlling joint venture partner, or the joint venture company, may result in harm to the Company's reputation or adversely affect the value of the Company's investment in the joint venture.

***A failure to identify suitable acquisition candidates or partners for strategic investments and to complete acquisitions could have a material adverse effect on the Company's business.***

As part of the Company's business strategy, the Company intends to pursue a wide array of potential strategic transactions, including acquisitions of complementary businesses, as well as strategic investments and joint ventures. Although the Company regularly evaluates such opportunities, the Company may not be able to successfully identify suitable acquisition candidates or to obtain sufficient financing on acceptable terms to fund such strategic transactions, which may slow the Company's growth and have a material adverse effect on the Company's business.

***The Company manufactures, sources and sells many products internationally and is exposed to risks associated with doing business globally.***

The Company's international activities are significant to its manufacturing capacity, revenues and profits; and the Company is further expanding internationally. The Company sells products, sources goods, operates plants and invests in companies around the world. Currently, the Company's Flooring ROW segment has significant operations in Europe, Russia, Malaysia, Australia and New Zealand, and the Company's Global Ceramic segment has significant operations in Brazil, Europe, Russia and Mexico, and the Company has invested in joint ventures in Brazil and India related to laminate flooring. In addition, the Company sources raw materials and finished goods from multiple international locations.

The Company's international sales, supply chain, operations and investments are subject to risks and uncertainties, including:

- changes in foreign country regulatory requirements;
- differing business practices associated with foreign operations;
- various import/export restrictions and the availability of required import/export licenses;
- imposition of foreign or domestic tariffs and other trade barriers;
- foreign currency exchange rate fluctuations;
- differing inflationary or deflationary market pressures;
- foreign country tax rules, regulations and other requirements, such as changes in tax rates and statutory and judicial interpretations in tax laws;

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- differing labor laws and changes in those laws;
- work stoppages and disruptions in the shipping of imported and exported products;
- government price controls;
- extended payment terms and the inability to collect accounts receivable;
- potential difficulties repatriating cash from non-U.S. subsidiaries; and
- compliance with laws governing international relations, including those U.S. laws that relate to sanctions and corruption.

Specifically, in Europe, the U.K. left the European Union ("Brexit") on January 31, 2020, and the terms of a trade deal with the EU are still being negotiated. A new trade deal may result in greater restrictions on trade between the U.K. and the EU, which could negatively impact the Company's results. Additionally, uncertainty regarding Brexit's current transitional phase may cause continued volatility in currency exchange rates. Sales generated by the Company's U.K. businesses may be negatively impacted when they are translated from the British pound to the U.S. dollar. The Company cannot assure investors that it will succeed in developing and implementing policies and strategies to address the foregoing risks effectively in each location where the Company does business, and, therefore that the foregoing factors will not have a material adverse effect on the Company's business.

***Negative tax consequences could materially and adversely affect the Company's business.***

The Company is subject to the tax laws of the many jurisdictions in which it operates. These tax laws are complex, and the manner in which they apply to our facts is sometimes open to interpretation. In calculating the provision for income taxes, the Company must make judgments about the application of these inherently complex tax laws. Our domestic and international tax liabilities are largely dependent upon the distribution of profit before tax among these many jurisdictions. However, our provision for income taxes also includes estimates of additional tax which may be incurred for tax exposures and reflects various estimates and assumptions, including assessments of future earnings of the Company that could impact the valuation of our deferred tax assets. The Company's future results of operations and tax liability could be adversely affected by changes in the effective tax rate as a result of a change in the mix of earnings in countries with differing statutory tax rates, changes in the overall profitability of the Company, changes in tax legislation and rates, changes in generally accepted accounting principles, changes in the valuation of deferred tax assets and liabilities, changes in the amount of earnings permanently reinvested offshore, the results of audits and examinations of previously filed tax returns, and ongoing assessments of the Company's tax exposures.

***The Company has been, and in the future may be, subject to costs, liabilities and other obligations under existing or new laws and regulations, which could have a material adverse effect on the Company's business.***

The Company is subject to increasingly numerous and complex laws, regulations and licensing requirements in each of the jurisdictions in which the Company conducts business. The Company faces risks and uncertainties related to compliance with such laws and regulations. In addition, new laws and regulations may be enacted in the U.S. or abroad that may require the Company to incur additional personnel-related, environmental, or other costs on an ongoing basis.

In particular, the Company's operations are subject to various environmental, health and safety laws and regulations, including those governing air emissions, wastewater discharges, and the use, storage, treatment, recycling and disposal of materials and finished product. The applicable requirements under these laws are subject to amendment, to the imposition of new or additional requirements and to changing interpretations of agencies or courts. The Company could incur material expenditures to comply with new or existing regulations, including fines and penalties and increased costs of its operations. For example, the Company's manufacturing facilities may become subject to further limitations on the emission of "greenhouse gases" due to public policy concerns regarding climate change issues or other environmental or health and safety concerns. While the form of any additional regulations cannot be predicted, a "cap-and-trade" system similar to the system that applies to the Company's businesses in the European Union could be adopted in the United States. The Company's manufacturing processes use a significant amount of energy, especially natural gas. Any such "cap-and-trade" system or other limitations imposed on the emission of "greenhouse gases" could require the Company to increase our capital expenditures, use its cash to acquire emission credits or restructure our manufacturing operations, which could have a material adverse effect on our business.

[Table of Contents](#)[Index to Financial Statements](#)***The Company's business operations could suffer significant losses from natural disasters, catastrophes, fire or other unexpected events.***

Many of the Company's business activities involve substantial investments in manufacturing facilities and many products are produced at a limited number of locations. These facilities could be materially damaged by natural disasters, such as floods, tornados, hurricanes and earthquakes, or by fire or other unexpected events. The Company could incur uninsured losses and liabilities arising from such events, including damage to its reputation, and/or suffer material losses in operational capacity, which could have a material adverse impact on its business.

***The Company may be exposed to litigation, claims and other legal proceedings relating to its products, operations and compliance with various laws and regulations, which could have a material adverse effect on the Company's business.***

In the ordinary course of business, the Company is subject to a variety of product-related claims, lawsuits and legal proceedings, including those relating to product liability, product warranty, product recall, personal injury, and other matters. The Company is also subject to various claims related to its operations and its compliance with various corporate laws and regulations. A very large claim or several similar claims asserted by a large class of plaintiffs could have a material adverse effect on the Company's business, if the Company is unable to successfully defend against or resolve these matters or if its insurance coverage is insufficient to satisfy any judgments against the Company or settlements relating to these matters. Although the Company has product liability insurance and other types of insurance, the policies may not provide coverage for certain claims against the Company or may not be sufficient to cover all possible liabilities. Further, the Company may not be able to maintain insurance at commercially acceptable premium levels. Moreover, adverse publicity arising from claims made against the Company, even if the claims are not successful, could adversely affect the Company's reputation or the reputation and sales of its products.

***The Company's inability to protect its intellectual property rights could have a material adverse effect on the Company's business***

The Company relies, in part, on the patent, trade secret and trademark laws of the U.S., countries in the European Union and elsewhere, as well as confidentiality agreements with some of the Company's employees, to protect that technology. The Company cannot assure investors that any patents owned by or issued to it will provide the Company with competitive advantages, that third parties will not challenge these patents, or that the Company's pending patent applications will be approved. The Company may be unable to prevent competitors and/or third parties from using the Company's technology without the Company's authorization, independently developing technology that is similar to that of the Company or designing around the Company's patents.

Furthermore, despite the Company's efforts, the Company may be unable to prevent competitors and/or third parties from using the Company's technology without the Company's authorization, independently developing technology that is similar to that of the Company or designing around the Company's patents. The use of the Company's technology or similar technology by others could reduce or eliminate any competitive advantage the Company has developed, cause the Company to lose sales or otherwise harm the Company's business.

The Company has obtained and applied for numerous U.S. and foreign service marks and trademark registrations and will continue to evaluate the registration of additional service marks and trademarks, as appropriate. The Company cannot guarantee that any of the Company's pending or future applications will be approved by the applicable governmental authorities. A failure to obtain trademark registrations in the U.S. and in other countries could limit the Company's ability to protect the Company's trademarks and impede the Company's marketing efforts in those jurisdictions and could have a material effect on the Company's business.

The Company generally requires third parties with access to the Company's trade secrets to agree to keep such information confidential. While such measures are intended to protect the Company's trade secrets, there can be no assurance that these agreements will not be breached, that the Company will have adequate remedies for any breach or that the Company's confidential and proprietary information and technology will not be independently developed by or become otherwise known to third parties. In any of these circumstances, the Company's competitiveness could be significantly impaired, which would limit the Company's growth and future revenue.

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***Third parties may claim that the Company infringed their intellectual property or proprietary rights, which could cause it to incur significant expenses or prevent it from selling the Company's products.***

In the past, third parties have claimed that certain technologies incorporated in the Company's products infringe their patent rights. The Company cannot be certain that the Company's products do not and will not infringe issued patents or other intellectual property rights of others.

The Company might be required to pay substantial damages (including punitive damages and attorney's fees), discontinue the use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses authorizing the use of infringing technology. There can be no assurance that licenses for disputed technology or intellectual property rights would be available on reasonable commercial terms, if at all. In the event of a successful claim against the Company along with failure to develop or license a substitute technology, the Company's business would be materially and adversely affected.

***The long-term performance of the Company's business relies on its ability to attract, develop and retain talented management.***

To be successful, the Company must attract, develop and retain qualified and talented personnel in management, sales, marketing, product design, and operations, and as it considers entering new international markets, skilled personnel familiar with those markets. The Company competes with multinational firms for these employees and invests resources in recruiting, developing, motivating and retaining them. The failure to attract, develop, motivate and retain key employees could negatively affect the Company's competitive position and its operating results.

***The Company is subject to changing regulation of corporate governance and public disclosure that have increased both costs and the risk of noncompliance.***

The Company's stock is publicly traded. As a result, the Company is subject to the rules and regulations of federal and state agencies and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities, including the Public Company Accounting Oversight Board, the Securities and Exchange Commission and the New York Stock Exchange, frequently issue new requirements and regulations. The Company's efforts to comply with the regulations and interpretations have resulted in, and are likely to continue to result in, increased general and administrative costs and diversion of management's time and attention from profit generating activities to compliance activities.

***The Company's stock price is subject to volatility.***

The Company's stock price has experienced price volatility in the past and may continue to do so in the future. The Company, the flooring industry and the stock market have experienced stock price and volume fluctuations that have affected stock prices in ways that may have been unrelated to the operating performance of these companies. Additionally, price volatility over a given period may cause the average price at which the Company repurchases its own stock to exceed the stock's price at a given point in time.

***Declines in the Company's business conditions may result in an impairment of the Company's assets which could result in a material non-cash charge.***

A significant or prolonged decrease in the Company's market capitalization, including a decline in stock price, or a negative long-term performance outlook, could result in an impairment of its assets which results when the carrying value of the Company's assets exceed their fair value.

#### ***Forward-Looking Information***

Certain of the statements in this Form 10-K, particularly those anticipating future performance, business prospects, growth and operating strategies, and similar matters, and those that include the words "could," "should," "believes," "anticipates," "expects" and "estimates" or similar expressions constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For those statements, Mohawk claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. There can be no assurance that the forward-looking statements will be accurate because they are based on many assumptions, which involve risks and uncertainties. The following important factors could cause future results to differ: changes in economic or industry conditions; competition; inflation and deflation in freight, raw material prices and other input

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costs; inflation and deflation in consumer markets; currency fluctuations; energy costs and supply; timing and level of capital expenditures; timing and implementation of price increases for the Company's products; impairment charges; integration of acquisitions; international operations; introduction of new products; rationalization of operations; tax and tax reform, product and other claims; litigation; regulatory and political changes in the jurisdictions in which the Company does business; and other risks identified in Mohawk's SEC reports and public announcements.

[Table of Contents](#)[Index to Financial Statements](#)**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The Company owns and leases manufacturing and distribution facilities worldwide. The table below lists the primary owned and leased facilities at December 31, 2019. The Company owns its Corporate Headquarters in Calhoun, GA. The Company also owns and operates service centers and stores in the United States and Russia, none of which are individually material. The Company believes its existing facilities are suitable for its present needs.

Segment and Property Use	North America	Europe and Russia	Other	Total
<b>Global Ceramic</b>				
Manufacturing	10	11	2	23
Distribution / Warehouse	8	7	2	17
<b>Flooring North America</b>				
Manufacturing	17	-	-	17
Distribution / Warehouse	11	-	-	11
<b>Flooring Rest of the World</b>				
Manufacturing	-	17	5	22
Distribution / Warehouse	-	3	-	3
<b>Total</b>				
Manufacturing	27	28	7	62
Distribution / Warehouse	19	10	2	31

**Item 3. Legal Proceedings**

The Company is involved in litigation from time to time in the regular course of its business. Except as noted below, there are no material legal proceedings pending or known by the Company to be contemplated to which the Company is a party or to which any of its property is subject.

*Perfluorinated Compounds ("PFCs") Litigation*

In September 2016, the Water Works and Sewer Board of the City of Gadsden, Alabama (the "Gadsden Water Board") filed an individual complaint in the Circuit Court of Etowah County, Alabama against certain manufacturers, suppliers, and users of chemicals containing specific PFCs, including the Company. In May 2017, the Water Works and Sewer Board of the Town of Centre, Alabama (the "Centre Water Board") filed a similar complaint in the Circuit Court of Cherokee County, Alabama. The Gadsden Water Board and the Centre Water Board both seek monetary damages and injunctive relief claiming that their water supplies contain excessive amounts of PFCs. Certain defendants, including the Company, filed dispositive motions in each case arguing that the Alabama state courts lack personal jurisdiction over them. These motions were denied. In June and September 2018, certain defendants, including the Company, petitioned the Alabama Supreme Court for Writs of Mandamus directing each lower court to enter an order granting the defendants' dispositive motions on personal jurisdiction grounds. The Alabama Supreme Court denied the petitions on December 20, 2019. Certain defendants, including the Company, filed an Application for Rehearing with the Alabama Supreme Court asking the Court to reconsider its December 2019 decision.

In December 2019, the City of Rome, Georgia ("Rome") filed a complaint in the Superior Court of Floyd County, Georgia that is similar to the Gadsden Water Board and Centre Water Board complaints, again seeking monetary damages and injunctive relief related to PFCs. Also in December 2019, Jarrod Johnson filed a putative class action in the Superior Court of Floyd County, Georgia purporting to represent all water subscribers with the Rome (Georgia) Water and Sewer Division and/or the Floyd County (Georgia) Water Department and seeking to recover, among other things, damages in the form of alleged increased rates and

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surcharges incurred by ratepayers for the costs associated with eliminating certain PFCs from their drinking water. In January 2020, defendant 3M Company removed the class action to federal court.

The Company denies all liability in these matters and intends to defend them vigorously.

#### *Putative Securities Class Action*

The Company and certain of its present and former executive officers were named as defendants in a putative shareholder class action lawsuit filed in the United States District Court for the Northern District of Georgia on January 3, 2020. The complaint alleges that defendants violated the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by making materially false and misleading statements and that the officers are control persons under Section 20(a) of the Securities Exchange Act of 1934. The complaint is filed on behalf of shareholders who purchased shares of the Company's common stock between April 28, 2017 and July 25, 2019. The Company believes the claims are frivolous and intends to defend them vigorously.

#### *Delaware State Court Action*

The Company and certain of its present and former executive officers were named as defendants in a putative state securities class action lawsuit filed in the Superior Court of the State of Delaware on January 30, 2020. The complaint alleges that defendants violated Sections 11 and 12 of the Securities Act of 1933. The complaint is filed on behalf of shareholders who purchased shares of the Company's common stock in Mohawk Industries Retirement Plan 1 and Mohawk Industries Retirement Plan 2 between April 27, 2017 and July 25, 2019. The Company believes the claims are frivolous and intends to defend them vigorously.

#### *Belgian Tax Matter (amounts in thousands)*

Between 2012 and 2014, the Company received assessments from the Belgian tax authority for the calendar years 2005 through 2010 in the amounts of €46,135, €38,817, €39,635, €30,131, €35,567 and €43,117 respectively, including penalties, but excluding interest. The Belgian tax authority denied the Company's formal protests against these assessments and the Company brought all six years before the Court of First Appeal in Bruges. The Court of First Appeal in Bruges ruled in favor of the Company on January 27, 2016, with respect to the calendar years ending December 31, 2005 and December 31, 2009; and on June 13, 2018, the Court of First Appeal in Bruges, ruled in favor of the Company with respect to the calendar years ending December 31, 2006, December 31, 2007, December 31, 2008 and December 31, 2010. The Belgian tax authority has lodged its Notification of Appeal for all six years with the Ghent Court of Appeal. On September 17, 2019, the Company pled its case to the Ghent Court of Special (Tax) Appeals and on October 1, 2019, the Court ruled in favor of the Company, re-confirming the rulings of the Court of First Appeals in Bruges with respect to the calendar years ending December 31, 2005 and December 31, 2009.

In March 2019, the Company received assessments from the Belgian tax authority for tax years 2011 through 2017 in the amount of €40,617, €39,732, €11,358, €23,919, €30,610, €93,145 and €79,933 respectively, including penalties, but excluding interest. The Company intends to file formal protests based on these assessments in a timely manner. The assessments are largely based on the same facts underlying the positive rulings, which the Belgian tax authority may appeal.

In January 2020, the Belgian tax authority set aside its tax assessments for the years 2011 through 2017, inclusively. These assessments were still in the administrative phase of the audit. At this time, the Company is uncertain what the Belgian tax authority intends to do with these years, if anything.

The Company continues to disagree with the views of the Belgian tax authority on this matter and will persist in its vigorous defense. Nevertheless, on May 24, 2016, the tax collector representing the Belgian tax authorities imposed a lien on the Company's properties in Wielsbeke (Ooigemstraat and Breestraat), Oostrozebeke (Ingelmunstersteenweg) and Desselgem (Waregemstraat) included in the Flooring ROW segment. The purpose of the lien is to provide security for payment should the Belgian tax authority prevail on its appeal. The lien does not interfere with the Company's operations at these properties.

#### *General*

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been made for probable losses that are reasonably estimable. These contingencies are subject to significant uncertainties and the Company is unable to estimate the amount or range of loss, if any, in excess of amounts accrued. The Company does not believe that the ultimate outcome of these actions will have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations, cash flows or liquidity in a given quarter or year.



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**Item 4. Mine Safety Disclosures**

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95.1 to this annual report on Form 10-K.

[Table of Contents](#)[Index to Financial Statements](#)**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market for the Common Stock**

The Company's common stock, \$0.01 par value per share (the "Common Stock"), is quoted on the New York Stock Exchange ("NYSE") under the symbol "MHK."

As of February 25, 2020, there were 226 holders of record of Common Stock. The Company has not paid or declared any cash dividends on shares of its Common Stock since completing its initial public offering. The payment of future cash dividends will be at the discretion of the Board of Directors and will depend upon the Company's profitability, financial condition, cash requirements, future prospects and other factors deemed relevant by the Board of Directors.

**Issuer Purchases of Equity Securities**

On October 25, 2018, the Company announced that its Board of Directors approved a new share repurchase program authorizing the Company to repurchase up to \$500 million in shares of its common stock. Under the share repurchase plan, the Company may purchase common stock in open market transactions, block or privately negotiated transactions, and may from time to time purchase shares pursuant to trading plans in accordance with Rules 10b5-1 or 10b-18 under the Exchange Act or by any combination of such methods. The number of shares to be purchased and the timing of the purchases are based on a variety of factors, including, but not limited to, the level of cash balances, credit availability, debt covenant restrictions, general business conditions, regulatory requirements, the market price of the Company's stock and the availability of alternative investment opportunities. No time limit was set for completion of repurchases under the authorization and the program may be suspended or discontinued at any time. The program replaces any previously authorized share repurchase programs.

Period	Total Number of Shares Purchased in Millions	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan in Millions	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan in Millions
September 30 through November 1, 2019	0.2	\$ 119.76	0.2	\$ 125.8
November 4 through November 29, 2019	-	\$ -	-	\$ 125.8
December 2 through December 31, 2019	-	\$ -	-	\$ 125.8
Total	0.2	\$ 119.76	0.2	

[Table of Contents](#)[Index to Financial Statements](#)**Item 6. Selected Financial Data**

The following table sets forth the selected financial data of the Company for the periods indicated which information is derived from the consolidated financial statements of the Company. The selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Company’s consolidated financial statements and notes thereto included elsewhere herein.

	As of or for the Years Ended December 31,				
	2019	2018 <sup>(a)</sup>	2017 <sup>(b)</sup>	2016	2015
(In thousands, except per share data)					
<b>Statement of operations data:</b>					
Net sales	\$ 9,970,672	9,983,634	9,491,290	8,959,087	8,071,563
Cost of sales	7,294,629	7,145,564	6,494,876	6,146,262	5,660,877
Gross profit	2,676,043	2,838,070	2,996,414	2,812,825	2,410,686
Selling, general and administrative expenses	1,848,819	1,742,744	1,642,241	1,532,882	1,573,120
Operating income	827,224	1,095,326	1,354,173	1,279,943	837,566
Interest expense	41,272	38,827	31,111	40,547	71,086
Other expense (income), net	36,407	7,298	5,205	(1,729)	17,619
Earnings from continuing operations before income taxes	749,545	1,049,201	1,317,857	1,241,125	748,861
Income tax expense	4,974	184,346	343,165	307,559	131,875
Earnings from continuing operations	744,571	864,855	974,692	933,566	616,986
Net earnings including noncontrolling interest	744,571	864,855	974,692	933,566	616,986
Less: Net earnings attributable to the noncontrolling interest	360	3,151	3,054	3,204	1,684
Net earnings attributable to Mohawk Industries, Inc.	\$ 744,211	861,704	971,638	930,362	615,302
Basic earnings from continuing operations per share	\$ 10.34	11.53	13.07	12.55	8.37
Basic earnings per share attributable to Mohawk Industries, Inc.	\$ 10.34	11.53	13.07	12.55	8.37
Diluted earnings from continuing operations per share	\$ 10.30	11.47	12.98	12.48	8.31
Diluted earnings per share attributable to Mohawk Industries, Inc.	\$ 10.30	11.47	12.98	12.48	8.31
<b>Balance sheet data:</b>					
Working capital	\$ 1,716,874	1,243,057	1,417,612	753,192	(9,056)
Total assets	13,386,680	13,099,123	12,094,853	10,230,596	9,934,400
Long-term debt (including current portion)	2,569,886	3,257,974	2,763,578	2,511,485	3,191,967
Total stockholders’ equity	8,126,448	7,440,059	7,067,009	5,783,487	4,860,863

- (a) During 2018, the Company acquired Godfrey Hirst Group, Eliane S/A Revestimentos Ceramicos (“Eliane”) and 3 businesses in Flooring ROW segment as discussed in Note 2 of the Notes to Consolidated Financial Statements.
- (b) During 2017, the Company acquired Emil as discussed in Note 2 of the Notes to Consolidated Financial Statements.

[Table of Contents](#)[Index to Financial Statements](#)**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations****Overview**

The following discussion and analysis of the Company's Results of Operations includes a comparison of fiscal 2019 to fiscal 2018. A similar discussion and analysis that compares fiscal 2018 to fiscal 2017 may be found in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of the Company's Form 10-K for the fiscal year ended December 31, 2018.

Mohawk is a significant supplier of every major flooring category with manufacturing operations in 19 nations and sales in more than 170 countries. Based on its annual sales, the Company believes it is the world's largest flooring manufacturer. A majority of the Company's long-lived assets are located in the United States and Europe, which are also the Company's primary markets. The Company expects continued growth in the United States market consistent with residential housing starts and remodeling investments and has invested significantly in state-of-the-art manufacturing to create aspirational products to delight consumers with beauty and performance. The Company also is a leading provider of flooring for the U.S. commercial market and has earned significant recognition for its innovation in design and performance as well as its sustainable products and practices. Additionally, the Company maintains significant operations in Europe, Russia, Mexico, Australia, New Zealand, Brazil and other parts of the world. The Company is growing share in many markets through its differentiated products, especially its ceramic tile collections.

During the past two decades, the Company has grown significantly. Its current geographic breadth and diverse product offering are reflected in three reporting segments: Global Ceramic; Flooring North America ("Flooring NA"); and Flooring Rest of the World ("Flooring ROW"). The Global Ceramic Segment designs, manufactures, sources and markets a broad line of ceramic tile, porcelain tile, natural stone tile and other products including natural stone, quartz and porcelain slab countertops, which it distributes primarily in North America, Europe, Brazil and Russia through various selling channels, which include company-owned stores, independent distributors and home centers. The Flooring NA Segment designs, manufactures, sources and markets its floor covering products, including broadloom carpet, carpet tile, rugs, carpet cushion, laminate and vinyl products, including luxury vinyl tile (LVT) and sheet vinyl, and wood flooring, all of which it distributes through its network of regional distribution centers and satellite warehouses using Company-operated trucks, common carriers or rail transportation. The Segment's product lines are sold through various channels, including independent floor covering retailers, independent distributors, home centers, mass merchandisers, department stores, shop at home, online retailers, buying groups, commercial contractors and commercial end users. The Flooring ROW Segment designs, manufactures, sources, licenses and markets laminate, vinyl products, including LVT and sheet vinyl, wood flooring, roofing panels, insulation boards, medium-density fiberboard ("MDF") and chipboards, which it distributes primarily in Europe, Russia, Australia and New Zealand through various channels, including independent floor covering retailers, independent distributors, company-owned distributors, home centers, commercial contractors and commercial end users.

The Company is managing through current macroeconomic headwinds including significant inflation, a strong U.S. dollar that is impacting currency translation as well as strengthening the competitiveness of imports in the U.S., slowing housing markets in a number of countries and a shift in consumer preferences to luxury vinyl tile. The Company has implemented multiple price increases in most product categories due to escalating material, transportation and energy costs in most markets. While focused on addressing current conditions, the Company remains committed to its long-term growth strategy, which includes strategic acquisitions in key growth markets and targeted internal investments that are expanding the Company's geographic reach and product portfolio.

In 2018, the Company completed five acquisitions: two that expanded the Company's global footprint with leadership positions in major markets and three that extended the Company's product offering and distribution in Europe. The Godfrey Hirst acquisition established the Company as the largest flooring manufacturer in Australia and New Zealand, with leading carpet and hard surface positions in both countries when combined with the Company's existing regional flooring distribution business. Godfrey Hirst's prestigious wool carpet collections are exported to numerous international markets and have been integrated into the U.S. soft surface product portfolio to expand sales. The acquisition of Brazil-based Eliane provided the Company with a leading ceramic tile position and the most appealing brand in one of the world's largest ceramic markets and created a gateway into the overall South American market as Eliane is Brazil's largest ceramic exporter. The acquisition of Berghoef, a leading European mezzanine flooring company, created a leading position in a category that is rapidly expanding due to increased construction of e-commerce warehousing across the continent. The acquisition of Swiss and Italian hard surface distributors expanded the Company's direct distribution of flooring sales in Europe.

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In 2019, the Company invested approximately \$545.5 million in capital projects to introduce new product categories, enter new markets, expand capacity of constrained premium products and improve productivity. In 2020, the Company plans to invest approximately an additional \$560-\$580 million to complete existing projects and commence new initiatives. The Company plans to invest in cost reduction initiatives, upgrades in recent acquisitions, previously initiated expansion projects and maintenance across the businesses. The main investment areas include the Company's newly acquired ceramic business in Brazil and the Godfrey Hirst Group in Australia and New Zealand where the Company is investing to dramatically improve profitability; premium water-resistant laminate in the U.S.; outdoor tile manufacturing in Europe; and premium sanitary ware manufacturing in Russia.

Net earnings attributable to the Company were \$744.2 million, or diluted EPS of \$10.30 for 2019 compared to net earnings attributable to the Company of \$861.7 million, or diluted EPS of \$11.47 for 2018. The decrease in EPS was primarily attributable to higher inflation costs, the unfavorable net impact of price and product mix, an impairment charge related to the Company's net investment in a manufacturer and distributor of ceramic tile in China, the unfavorable net impact due to lower sales volumes, an increase in costs due to lower productivity (offset by lower startup costs), costs due to temporarily reducing production, the unfavorable net impact from foreign exchange rates, costs associated with investments in new product development, sales personnel and marketing, partially offset by decreased income tax expense. The Company implemented select operational, administrative and financial restructurings that centralized certain business processes and intangible assets in various European jurisdictions into a new entity (the "European Restructuring"). The European Restructuring resulted in a current income tax liability of \$148.2 million, calculated in part by measuring the fair value of intangible assets transferred. The Company offset the income tax liability with the utilization of \$148.2 million of deferred tax assets from accumulated net operating loss carry forwards. The European Restructuring also resulted in the Company recording a \$136.2 million deferred tax asset, and a corresponding deferred tax benefit, related to the tax basis of the intangible assets in the new entity.

For the year ended December 31, 2019, the Company generated \$1,418.8 million of cash from operating activities. As of December 31, 2019, the Company had cash and cash equivalents of \$134.8 million, of which \$24.8 million was in the United States and \$110.0 million was in foreign countries.

[Table of Contents](#)[Index to Financial Statements](#)**Results of Operations**

Following are the results of operations for the last three years:

	For the Years Ended December 31,					
	2019		2018		2017	
			(In millions)			
<b>Statement of operations data:</b>						
Net sales	\$	9,970.7	100.0%	\$	9,983.6	100.0%
Cost of sales (1)		7,294.6	73.2%		7,145.6	71.6%
Gross profit		2,676.0	26.8%		2,838.1	28.4%
Selling, general and administrative expenses (2)		1,848.8	18.5%		1,742.7	17.5%
Operating income		827.2	8.3%		1,095.3	11.0%
Interest expense (3)		41.3	0.4%		38.8	0.4%
Other expense (income) (4)		36.4	0.4%		7.3	0.1%
Earnings before income taxes		749.5	7.5%		1,049.2	10.5%
Income tax expense (5)		5.0	0.1%		184.3	1.8%
Earnings from continuing operations		744.6	7.5%		864.9	8.7%
Net earnings including noncontrolling interest		744.6	7.5%		864.9	8.7%
Less: Net earnings attributable to the noncontrolling interest		0.4	-%		3.2	-%
Net earnings attributable to Mohawk Industries, Inc.	\$	744.2	7.5%	\$	861.7	8.6%
					\$	971.6
(1) Cost of sales includes:						
Restructuring, acquisition and integration-related charges	\$	88.3	0.9%	\$	47.1	0.5%
Acquisition inventory step-up		3.9	-%		15.4	0.2%
Other		5.8	0.1%		-	-%
(2) Selling, general and administrative expenses include:						
Restructuring, acquisition and integration-related charges		12.9	0.1%		31.6	0.3%
Reversal of uncertain tax position indemnification asset		0.2	0.0%		-	-%
(3) Interest expense includes:						
Debt extinguishment costs		-	-%		-	-%
Deferred loan cost write-off		0.6	0.0%		-	-%
Acquisition interest expense		-	-%		4.3	-%
(4) Other expense (income) includes:						
Restructuring, acquisition and integration charges		-	-%		(0.2)	-%
Impairment of net investment in a manufacturer and distributor of Ceramic tile in China		59.9	0.6%		-	-%
Reversal of uncertain tax position indemnification asset		(0.3)	-%		4.6	-%
Other		(7.2)	(0.1)%		-	-%
(5) Income tax expense (income) includes:						
Tax reform and related, net		-	-%		-	-%
European Restructuring		(136.2)	(1.4)%		-	-%
Reversal of uncertain tax position		0.1	-%		(4.6)	-%

[Table of Contents](#)[Index to Financial Statements](#)**Year Ended December 31, 2019, as Compared with Year Ended December 31, 2018****Net sales**

Net sales for 2019 were \$9,970.7 million, reflecting a decrease of \$12.9 million, or 0.1%, from the \$9,983.6 million reported for 2018. The decrease was primarily attributable to the unfavorable net impact from foreign exchange rates of approximately \$178 million, or 1.8% and by the unfavorable net impact of price and product mix of approximately \$54 million, or 0.5% offset by higher sales volume of approximately \$219 million, or 2.2%, which includes the full year impact on sales from the prior year acquisitions of approximately \$360 million.

*Global Ceramic Segment*-Net sales increased \$78.2 million, or 2.2%, to \$3,631.1 million for 2019, compared to \$3,552.9 million for 2018. The increase was primarily attributable to higher sales volume of approximately \$113 million, or 3.2%, which includes the full year impact on sales volume attributable to acquisitions from the prior year of approximately \$183 million, and the favorable net impact of price and product mix of approximately \$20 million partially offset by the unfavorable net impact from foreign exchange rates of approximately \$54 million, or 1.5%.

*Flooring NA Segment*-Net sales decreased \$185.4 million, or 4.6%, to \$3,843.7 million for 2019, compared to \$4,029.1 million for 2018. The decrease was attributable to lower volumes of approximately \$186 million, or 4.6%.

*Flooring ROW Segment*-Net sales increased \$94.2 million, or 3.9%, to \$2,495.8 million for 2019, compared to \$2,401.6 million for 2018. The increase was primarily attributable to higher sales volume of approximately \$292 million, or 12.1%, which includes the full year impact on sales volume attributable to acquisitions from the prior year of approximately \$177 million partially offset by the unfavorable net impact from foreign exchange rates of approximately \$124 million, or 5.2%, and the unfavorable net impact of price and product mix of approximately \$75 million, or 3.1%.

Quarterly net sales and the percentage changes in net sales by quarter for 2019 versus 2018 were as follows (dollars in millions):

	2019	2018	Change
First quarter	\$ 2,442.5	2,412.2	1.3%
Second quarter	2,584.5	2,577.0	0.3%
Third quarter	2,519.2	2,545.8	(1.0)%
Fourth quarter	2,424.5	2,448.6	(1.0)%
Total year	\$ 9,970.7	9,983.6	(0.1)%

**Gross profit**

Gross profit for 2019 was \$2,676.0 million (26.8% of net sales), a decrease of \$162.1 million or 5.7%, compared to gross profit of \$2,838.1 million (28.4% of net sales) for 2018. As a percentage of net sales, gross profit decreased 159 basis points. The decrease in gross profit dollars was primarily attributable to the unfavorable net impact of price and product mix of approximately \$80 million, the higher inflation costs of approximately \$54 million, the unfavorable net impact from foreign exchange rates of approximately \$51 million, the impact of restructuring, acquisition and integration-related costs of approximately \$36 million, and costs due to temporarily reduced production of approximately \$24 million, partially offset by lower startup costs of approximately \$48 million and higher sales volume of approximately \$36 million.

**Selling, general and administrative expenses**

Selling, general and administrative expenses for 2019 were \$1,848.8 million (18.5% of net sales), an increase of \$106.1 million or 6.1% compared to \$1,742.7 million (17.5% of net sales) for 2018. As a percentage of net sales, selling, general and administrative expenses increased 109 basis points. The increase in selling, general and administrative expenses in dollars was primarily attributable to approximately \$72 million of costs due to higher sales volume including acquisitions, higher inflation costs of approximately \$29 million and approximately \$13 million of costs associated with investments in new product development, sales personnel and marketing, partially offset by the net impact of favorable foreign exchange rates of approximately \$27 million.

[Table of Contents](#)[Index to Financial Statements](#)**Operating income**

Operating income for 2019 was \$827.2 million (8.3% of net sales) reflecting a decrease of \$268.1 million, or 24.5%, compared to operating income of \$1,095.3 million (11.0% of net sales) for 2018. The decrease in operating income was primarily attributable to higher inflation costs of approximately \$83 million, the unfavorable net impact of price and product mix of approximately \$81 million, approximately \$36 million due to lower sales volume, an increase in costs of approximately \$31 million due to lower productivity (offset by lower startup costs of approximately \$58 million), the unfavorable net impact from foreign exchange rates of approximately \$24 million, approximately \$24 million of costs due to temporarily reduced production, the impact of restructuring, acquisition and integration-related costs of approximately \$17 million, and approximately \$13 million of costs associated with investments in new product development, sales personnel and marketing.

*Global Ceramic Segment*-Operating income was \$340.1 million (9.4% of segment net sales) for 2019 reflecting a decrease of \$102.8 million, or 23.2%, compared to operating income of \$442.9 million (12.5% of segment net sales) for 2018. The decrease in operating income was primarily attributable to higher inflation costs of approximately \$75 million, approximately \$25 million of costs due to temporarily reduced production, approximately \$13 million of costs associated with investments in new product development, sales personnel and marketing, approximately \$23 million due to the unfavorable net impact of sales volume, price, product mix, and the unfavorable net impact from foreign exchange rates of approximately \$7 million, partially offset by savings from capital investments and cost reduction initiatives of approximately \$34 million.

*Flooring NA Segment*-Operating income was \$167.4 million (4.4% of segment net sales) for 2019 reflecting a decrease of \$180.5 million, or 51.9%, compared to operating income of \$347.9 million (8.6% of segment net sales) for 2018. The decrease in operating income was primarily attributable to approximately \$72 million in decreased sales volume, higher inflation costs of approximately \$49 million, and an increase in costs of approximately \$41 million due to lower than expected production volumes, the impact of restructuring, acquisition and integration-related costs of approximately \$37 million, partially offset by lower startup costs of approximately \$22 million.

*Flooring ROW Segment*-Operating income was \$359.4 million (14.4% of segment net sales) for 2019 reflecting an increase of \$13.6 million, or 3.9%, compared to operating income of \$345.8 million (14.4% of segment net sales) for 2018. The increase in operating income was primarily attributable to increased sales volume of approximately \$51 million, lower inflation costs of approximately \$46 million and lower start-up costs of approximately \$33 million, partially offset by unfavorable net impact of price and product mix of approximately \$69 million, an increase in costs of approximately \$24 million due to lower production volumes, and the unfavorable net impact from foreign exchange rates of approximately \$17 million.

**Interest expense**

Interest expense was \$41.3 million for 2019, reflecting an increase of \$2.5 million compared to interest expense of \$38.8 million for 2018. The increase in interest expense was primarily due to increased borrowings during the year.

**Other expense (income)**

Other expense was \$36.4 million for 2019, reflecting an unfavorable change of \$29.1 million compared to other expense of \$7.3 million for 2018. The change was primarily attributable to a net impairment charge of \$59.9 million related to the Company's net investment in a manufacturer and distributor of ceramic tile in China, partially offset by favorable FX and other miscellaneous items.



[Table of Contents](#)[Index to Financial Statements](#)**Income tax expense**

For 2019, the Company recorded income tax expense of \$5.0 million on earnings before income taxes of \$749.5 million for an effective tax rate of 0.7%, as compared to an income tax expense of \$184.3 million on earnings before income taxes of \$1,049.2 million, resulting in an effective tax rate of 17.6% for 2018. The Company implemented select operational, administrative and financial restructurings that centralized certain business processes and intangible assets in various European jurisdictions into a new entity. The European Restructuring resulted in a current income tax liability of \$148.2 million, calculated in part by measuring the fair value of intangible assets transferred. The Company offset the income tax liability with the utilization of \$148.2 million of deferred tax assets from accumulated net operating loss carry forwards. The European Restructuring also resulted in the Company recording a \$136.2 million deferred tax asset, and a corresponding deferred tax benefit, related to the tax basis of the intangible assets in the new entity. The tax rate for the Company was also favorably impacted by its geographic mix of earnings.

**Liquidity and Capital Resources**

The Company's primary liquidity requirements are for working capital, capital expenditures and acquisitions. The Company's liquidity needs are met primarily through a combination of internally generated funds, commercial paper, bank credit lines, term and senior notes and credit terms from suppliers. As of December 31, 2019, the Company had a total of \$1,066.5 million available under its Senior Credit Facility. The Company also maintains local currency revolving lines of credit and other credit facilities to provide liquidity to its businesses around the world. None of such local facilities are material in amount.

Net cash provided by operating activities for the year ended 2019 was \$1,418.8 million, compared to net cash provided by operating activities of \$1,181.3 million for the year ended 2018. This increase of \$237.4 million was primarily attributable to changes in working capital, partially offset by lower net earnings. The decrease in cash provided by operating activities for 2018 as compared to 2017 of \$12.3 million was primarily attributable to a reduction in operating income and changes in working capital.

Net cash used in investing activities for the year ended 2019 was \$616.0 million compared to net cash used in investing activities of \$1,332.2 million for the year ended 2018. The decrease was primarily due to a \$487.9 million reduction in acquisitions and a \$248.6 million reduction in capital expenditures. Net cash used in investing activities for the year ended 2018 was \$1,332.2 million compared to net cash used in investing activities of \$1,240.7 million for the year ended 2017. The increase was primarily due to a \$318.2 million increase in acquisitions, partially offset by a \$111.9 million reduction in capital expenditures. The Company continues to invest to optimize sales and profit growth with product expansion and cost reduction projects in the business.

Net cash used in financing activities for the year ended 2019 was \$789.9 million compared to net cash provided by financing activities of \$198.0 million for the year ended 2018. The change in cash used in financing is primarily attributable to lower borrowings of commercial paper of \$860.6 million. Net cash provided by financing activities for the year ended 2018 was \$198.0 million compared to net cash used in financing activities of \$7.0 million for the year ended 2017. The change in cash provided by financing is primarily attributable to increased borrowings of commercial paper, offset by purchases of the Company's shares of \$274.1 million.

*Senior Credit Facility*

On October 18, 2019, the Company amended and restated its \$1,800.0 million senior credit facility, extending the maturity from March 26, 2022 to October 18, 2024 (as amended and restated, the "Senior Credit Facility"). The Senior Credit Facility marginally reduced the commitment fee and modified certain negative covenants to provide the Company with additional flexibility, including flexibility to make acquisitions and incur additional indebtedness. The amendment also renewed the Company's option to extend the maturity of the Senior Credit Facility up to two times for an additional one-year period each.

At the Company's election, revolving loans under the Senior Credit Facility bear interest at annual rates equal to either (a) LIBOR for 1, 2, 3 or 6 month periods, as selected by the Company, plus an applicable margin ranging between 1.00% and 1.75% (1.125% as of December 31, 2019), or (b) the higher of the Wells Fargo Bank, National Association prime rate, the Federal Funds rate plus 0.5%, or the Eurocurrency Rate (as defined in the Senior Credit Facility) rate plus 1.0%, plus an applicable margin ranging between 0.00% and 0.75% (0.125% as of December 31, 2019). The Company also pays a commitment fee to the lenders under the Senior Credit Facility on the average amount by which the aggregate commitments of the lenders exceed utilization of the Senior Credit Facility ranging from 0.09% to 0.20% per annum (0.11% as of December 31, 2019). The applicable margins and the commitment fee are determined based on whichever of the Company's Consolidated Net Leverage Ratio or its senior unsecured debt rating (or if not available, corporate family rating) results in the lower applicable margins and commitment fee (with applicable margins and the commitment fee increasing as that ratio increases or those ratings decline, as applicable).

The obligations of the Company and its subsidiaries in respect of the Senior Credit Facility are unsecured.

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The Senior Credit Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on liens, subsidiary indebtedness, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, future negative pledges, and changes in the nature of the Company's business. The Company is also required to maintain a Consolidated Interest Coverage Ratio of at least 3.0 to 1.0 and a Consolidated Net Leverage Ratio of no more than 3.75 to 1.0, each as of the last day of any fiscal quarter. The limitations contain customary exceptions or, in certain cases, do not apply as long as the Company is in compliance with the financial ratio requirements and is not otherwise in default. However, at the Company's election upon the occurrence of certain material acquisitions, a step up of the maximum permitted Consolidated Net Leverage Ratio to 4.00 to 1.00 for the four (4) fiscal quarter period of the Company commencing with the fiscal quarter during which said acquisition(s) closes.

The Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

In 2019, the Company paid financing costs of \$2.3 million in connection with the amendment and restatement of its Senior Credit Facility. These costs were deferred and, along with previously unamortized costs of \$3.4 million are being amortized over the term of the Senior Credit Facility.

As of December 31, 2019, amounts utilized under the Senior Credit Facility included \$16.8 million of borrowings and \$22.8 million of standby letters of credit related to various insurance contracts and foreign vendor commitments. The outstanding borrowings of \$693.9 million under the Company's U.S. and European commercial paper programs as of December 31, 2019 reduce the availability of the 2019 Senior Credit Facility. Including commercial paper borrowings, the Company has utilized \$733.5 million under the Senior Credit Facility resulting in a total of \$1,066.5 million available as of December 31, 2019.

#### *Commercial Paper*

On February 28, 2014 and July 31, 2015, the Company established programs for the issuance of unsecured commercial paper in the United States and Eurozone capital markets, respectively. Commercial paper issued under the U.S. and European programs will have maturities ranging up to 397 and 183 days, respectively. None of the commercial paper notes may be voluntarily prepaid or redeemed by the Company and all rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness. To the extent that the Company issues European commercial paper notes through a subsidiary of the Company, the notes will be fully and unconditionally guaranteed by the Company.

The Company uses its Senior Credit Facility as a liquidity backstop for its commercial paper programs. Accordingly, the total amount outstanding under all of the Company's commercial paper programs may not exceed \$1,800.0 million (less any amounts drawn on the Senior Credit Facility) at any time.

The proceeds from the issuance of commercial paper notes will be available for general corporate purposes. As of December 31, 2019, there was \$317.0 million outstanding under the U.S. commercial paper program, and the euro equivalent of \$376.9 million under the European program. The weighted-average interest rate and maturity period for the U.S. program were 2.03% and 21 days, respectively. The weighted-average interest rate and maturity period for the European program were (0.24)% and 24.5 days, respectively.

#### *Senior Notes*

On September 4, 2019, Mohawk Capital Finance S.A. ("Mohawk Finance"), an indirect wholly-owned finance subsidiary of the Company, completed the issuance and sale of €300.0 million aggregate principal amount of its Floating Rate Notes due September 4, 2021 ("2021 Floating Rate Notes"). The 2021 Floating Rate Notes are senior unsecured obligations of Mohawk Finance and rank pari passu with all of Mohawk Finance's other existing and future senior unsecured indebtedness. The 2021 Floating Rate Notes are fully, unconditionally and irrevocably guaranteed by the Company on a senior unsecured basis. These notes bear interest at a rate per annum, reset quarterly, equal to three-month EURIBOR plus 0.2% (but in no event shall the interest rate be less than zero). Interest on the 2021 Floating Rate Notes is payable quarterly on December 4, March 4, June 4, and September 4 of each year. Mohawk Finance received an issuance premium of €0.7 million and paid financing cost of \$0.8 million in connection with the 2021 Floating Rate Notes. The issuance premium and financing costs have been deferred and are being amortized over the term of the 2021 Floating Rate Notes.

On May 18, 2018, Mohawk Finance completed the issuance and sale of €300.0 million aggregate principal amount of its Floating Rate Notes due May 18, 2020 ("2020 Floating Rate Notes"). The 2020 Floating Rate Notes are senior unsecured obligations of Mohawk Finance and rank pari passu with all of Mohawk Finance's other existing and future senior unsecured

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indebtedness. The 2020 Floating Rate Notes are fully, unconditionally and irrevocably guaranteed by the Company on a senior unsecured basis. These notes bear interest at a rate per annum, reset quarterly, equal to three-month EURIBOR plus 0.3% (but in no event shall the interest rate be less than zero). Interest on the 2020 Floating Rate Notes is payable quarterly on August 18, November 18, February 18, and May 18 of each year. Mohawk Finance paid financing costs of \$0.9 million in connection with the 2020 Floating Rate Notes. These costs were deferred and are being amortized over the term of the 2020 Floating Rate Notes.

On September 11, 2017, Mohawk Finance completed the issuance and sale of €300.0 million aggregate principal amount of its Floating Rate Notes due September 11, 2019 ("2019 Floating Rate Notes"). The 2019 Floating Rate Notes were senior unsecured obligations of Mohawk Finance and ranked pari passu with all of Mohawk Finance's other existing and future senior unsecured indebtedness. The 2019 Floating Rate Notes were fully, unconditionally and irrevocably guaranteed by the Company on a senior unsecured basis. These notes bore interest at a rate per annum, reset quarterly, equal to three-month EURIBOR plus 0.3% (but in no event would the interest rate be less than zero). Interest on the 2019 Floating Rate Notes was payable quarterly on September 11, December 11, March 11, and June 11 of each year. Mohawk Finance paid financing costs of \$0.9 million in connection with the 2019 Floating Rate Notes. These costs were deferred and amortized over the term of the 2019 Floating Rate Notes. On September 11, 2019, the Company paid the remaining €300.0 million outstanding principal of the 2019 Floating Rate Notes utilizing cash on hand and borrowings under its European commercial paper program.

On June 9, 2015, the Company issued €500.0 million aggregate principal amount of 2.00% Senior Notes due January 14, 2022 ("2.00% Senior Notes"). The 2.00% Senior Notes are senior unsecured obligations of the Company and rank pari passu with all of the Company's existing and future unsecured indebtedness. Interest on the 2.00% Senior Notes is payable annually in cash on January 14 of each year, commencing on January 14, 2016. The Company paid financing costs of \$4.2 million in connection with the 2.00% Senior Notes. These costs were deferred and are being amortized over the term of the 2.00% Senior Notes.

On January 31, 2013, the Company issued \$600.0 million aggregate principal amount of 3.85% Senior Notes due February 1, 2023 ("3.85% Senior Notes"). The 3.85% Senior Notes are senior unsecured obligations of the Company and rank pari passu with all of the Company's existing and future unsecured indebtedness. Interest on the 3.85% Senior Notes is payable semi-annually in cash on February 1 and August 1 of each year. The Company paid financing costs of \$6.0 million in connection with the 3.85% Senior Notes. These costs were deferred and are being amortized over the term of the 3.85% Senior Notes.

As defined in the related agreements, the Company's senior notes contain covenants, representations and warranties and events of default, subject to exceptions, and restrictions on the Company's financial and business operations, including limitations on liens, restrictions on entering into sale and leaseback transactions, fundamental changes, and a provision allowing the holder of the notes to require repayment upon a change of control triggering event.

#### *Other*

The Company may continue, from time to time, to retire its outstanding debt through cash purchases in the open market, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors. The amount involved may be material.

As of December 31, 2019, the Company had cash of \$134.8 million, of which \$110.0 million was held outside the United States. The Company plans to permanently reinvest the cash held outside the United States. The Company believes that its cash and cash equivalents on hand, cash generated from operations and availability under its Senior Credit Facility will be sufficient to meet its capital expenditure, working capital and debt servicing requirements over the next twelve months.

As of December 31, 2019, the Company has repurchased \$374.2 million worth of its shares of common stock pursuant to the \$500 million program announced in October 2018. All of these repurchases have been financed through the Company's operations and existing finance arrangements. See Item 5 - Issuer Purchases of Equity Securities.

#### **Contractual obligations and commitments**

The following is a summary of the Company's future minimum payments under contractual obligations and commitments as of December 31, 2019 (in millions):

	Total	2020	2021	2022	2023	2024	Thereafter
<u>Contractual obligations and commitments:</u>							
Long-term debt, including current maturities	\$ 2,573.0	1,051.6	340.6	564.3	603.8	2.6	10.1
Interest payments on long-term debt and finance leases <sup>(1)</sup>	103.0	40.5	34.8	24.4	2.2	0.3	0.8
Operating leases	363.2	119.7	94.2	66.1	37.0	20.1	26.1
Purchase commitments <sup>(2)</sup>	834.7	183.1	83.3	80.2	48.8	48.8	390.5
Expected pension contributions <sup>(3)</sup>	3.0	3.0	-	-	-	-	-
Uncertain tax positions <sup>(4)</sup>	3.3	3.3	-	-	-	-	-
Guarantees <sup>(5)</sup>	40.1	14.1	7.1	5.3	4.5	4.5	4.5
Total	\$ 3,920.3	1,415.3	560.0	740.3	696.3	76.4	432.0

- (1) For fixed rate debt, the Company calculated interest based on the applicable rates and payment dates. For variable rate debt, the Company estimated average outstanding balances for the respective periods and applied interest rates in effect as of December 31, 2019 to these balances.
- (2) Includes volume commitments for natural gas, electricity and raw material purchases.
- (3) Includes the estimated pension contributions for 2020 only, as the Company is unable to estimate the pension contributions beyond 2020. The Company's projected benefit obligation and plan assets as of December 31, 2019 were \$73.5 million and \$60.0 million, respectively. The projected benefit obligation liability has not been presented in the table above due to uncertainty as to amounts and timing regarding future payments.
- (4) Excludes \$38.6 million of non-current accrued income tax liabilities and related interest and penalties for uncertain tax positions. These liabilities have not been presented in the table above due to uncertainty as to amounts and timing regarding future payments.
- (5) Includes bank guarantees and letters of credit.

#### Critical Accounting Policies

In preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles, the Company must make decisions which impact the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. Such decisions include the selection of appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, the Company applies judgment based on its understanding and analysis of the relevant circumstances and historical experience. Actual amounts could differ from those estimated at the time the consolidated financial statements are prepared.

The Company's significant accounting policies are described in Note 1 to the Consolidated Financial Statements included elsewhere in this report. Some of those significant accounting policies require the Company to make subjective or complex judgments or estimates. Critical accounting estimates are defined as those that are both most important to the portrayal of a company's financial condition and results and require management's most difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The Company believes the following accounting policies require it to use judgments and estimates in preparing its consolidated financial statements and represent critical accounting policies.

- *Accounts receivable and revenue recognition.* The Company recognizes revenues when it satisfies performance obligations as evidenced by the transfer of control of the promised goods to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods. The nature of the promised goods are ceramic, stone, carpet, resilient, laminate, wood and other flooring products. Payment is typically received 90 days or less from the invoice date. The Company adjusts the amounts of revenue for expected cash discounts, sales allowances, returns, and claims, based upon historical experience. The Company adjusts accounts receivable for doubtful account allowances based upon historical bad debt, claims experience, periodic evaluation of specific customer accounts, and the aging of

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accounts receivable. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. A 10% change in the Company's allowance for discounts, returns, claims and doubtful accounts would have affected net earnings by approximately \$5 million for the year ended December 31, 2019.

- *Inventories are stated at the lower of cost or market (net realizable value).* Cost has been determined using the first-in first-out method ("FIFO"). Costs included in inventory include raw materials, direct and indirect labor and employee benefits, depreciation, general manufacturing overhead and various other costs of manufacturing. Market, with respect to all inventories, is replacement cost or net realizable value. Inventories on hand are compared against anticipated future usage, which is a function of historical usage, anticipated future selling price, expected sales below cost, excessive quantities and an evaluation for obsolescence. Actual results could differ from assumptions used to value obsolete inventory, excessive inventory or inventory expected to be sold below cost, and a 10% change in the Company's assumptions for excess or obsolete inventory would have affected net earnings by approximately \$14 million for the year ended December 31, 2019.
- *Acquisition Accounting.* The fair value of the consideration the Company pays for each new acquisition is allocated to tangible assets and identifiable intangible assets, liabilities assumed, any non-controlling interest in the acquired entity and goodwill. The accounting for acquisitions involves a considerable amount of judgment and estimate, including the fair value of certain forms of consideration; fair value of acquired intangible assets involving projections of future revenues and cash flows that are then either discounted at an estimated discount rate or measured at an estimated royalty rate; fair value of other acquired assets and assumed liabilities, including potential contingencies; and the useful lives of the acquired assets. The assumptions used are determined at the time of the acquisition in accordance with accepted valuation models. Projections are developed using internal forecasts, available industry and market data and estimates of long-term rates of growth for the business. The impact of prior or future acquisitions on the Company's financial position or results of operations may be materially impacted by the change in or initial selection of assumptions and estimates. See Note 2, Acquisitions for further discussion of business combination accounting valuation methodology and assumptions.
- *Goodwill and other intangibles.* Goodwill is tested annually for impairment on the first day of the fourth quarter or earlier upon the occurrence of certain events or substantive changes in circumstances. The Company considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. The goodwill impairment tests are based on determining the fair value of the specified reporting units based on management judgments and assumptions using the discounted cash flows and comparable company market valuation approaches. The Company has identified Global Ceramic, Flooring NA and Flooring ROW as its reporting units for the purposes of allocating goodwill and intangibles as well as assessing impairments. The valuation approaches are subject to key judgments and assumptions that are sensitive to change such as judgments and assumptions about appropriate sales growth rates, operating margins, weighted average cost of capital ("WACC"), and comparable company market multiples. When developing these key judgments and assumptions, the Company considers economic, operational and market conditions that could impact the fair value of the reporting unit. However, estimates are inherently uncertain and represent only management's reasonable expectations regarding future developments. These estimates and the judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results. Should a significant or prolonged deterioration in economic conditions occur, such as declines in spending for new construction, remodeling and replacement activities; the inability to pass increases in the costs of raw materials and fuel on to customers; or a decline in comparable company market multiples, then key judgments and assumptions could be impacted. Generally, a decline in estimated after tax cash flows greater than approximately 19% to 39% or an increase of approximately 15% to 45% in WACC or a significant or prolonged decline in market capitalization could result in an additional indication of impairment.

The impairment test for intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. Significant judgments inherent in this analysis include assumptions about appropriate sales growth rates, royalty rates, WACC and the amount of expected future cash flows. These judgments and assumptions are subject to the variability discussed above.

The impairment evaluation for indefinite lived intangible assets, which for the Company are its trademarks, is conducted on the first day of the fourth quarter of each year, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The determination of fair value used in the impairment evaluation is based on discounted estimates of future sales projections attributable to ownership of the trademarks. Significant judgments inherent in this analysis include assumptions about appropriate sales growth rates, royalty rates, WACC and the amount of expected future cash flows. The judgments and assumptions used in the estimate of fair value are generally consistent with past performance and are also consistent with the projections and assumptions that are used in operating plans. Such

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assumptions are subject to change as a result of changing economic and competitive conditions. The determination of fair value is highly sensitive to differences between estimated and actual cash flows and changes in the related discount rate used to evaluate the fair value of the trademarks. Estimated cash flows are sensitive to changes in the economy among other things.

The Company reviews its long-lived asset groups, which include intangible assets subject to amortization, which for the Company are its patents and customer relationships, for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset groups may not be recoverable. Recoverability of asset groups to be held and used is measured by a comparison of the carrying amount of long-lived assets to future undiscounted net cash flows expected to be generated by these asset groups. If such asset groups are considered to be impaired, the impairment recognized is the amount by which the carrying amount of the asset group exceeds the fair value of the asset group. Assets held for sale are reported at the lower of the carrying amount or fair value less estimated costs of disposal and are no longer depreciated.

The Company conducted its annual assessment of goodwill and indefinite lived intangibles on the first day of the fourth quarter and no impairment was indicated for 2019.

- *Income taxes.* The Company's effective tax rate is based on its income, statutory tax rates and tax planning opportunities available in the jurisdictions in which it operates. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining the Company's tax expense and in evaluating the Company's tax positions. Deferred tax assets represent amounts available to reduce income taxes payable on taxable income in a future period. The Company evaluates the recoverability of these future tax benefits by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely on estimates, including business forecasts and other projections of financial results over an extended period of time. In the event that the Company is not able to realize all or a portion of its deferred tax assets in the future, a valuation allowance is provided. The Company would recognize such amounts through a charge to income in the period in which that determination is made or when tax law changes are enacted. For further information regarding the Company's valuation allowances, see Note 14, Income Taxes.

In the ordinary course of business there is inherent uncertainty in quantifying the Company's income tax positions. The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon the Company's evaluation of the facts, circumstances and information available as of the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information, as required by the provisions of the Financial Accounting Standards Board ("FASB") FASB Accounting Standards Codification Topic ("ASC") 740-10. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the consolidated financial statements. For further information regarding the Company's uncertain tax positions, see Note 14, Income Taxes.

- *Environmental and legal accruals.* Environmental and legal accruals are estimates based on judgments made by the Company relating to ongoing environmental and legal proceedings, as disclosed in the Company's consolidated financial statements. In determining whether a liability is probable and reasonably estimable, the Company consults with its internal experts. The Company believes that the amounts recorded in the accompanying financial statements are based on the best estimates and judgments available to it.

#### **Recent Accounting Pronouncements**

See Note 1(u), "Summary of Significant Accounting Policies", of the Company's accompanying audited consolidated financial statements in Item 8 of this Annual Report on Form 10-K for a description of recent accounting pronouncements including the dates, or expected dates of adoption, and effects, or expected effects, on the Company's disclosures, results of operations, and financial condition.

[Table of Contents](#)[Index to Financial Statements](#)**Impact of Inflation**

Inflation affects the Company's manufacturing costs, distribution costs and operating expenses. The Company expects raw material prices, many of which are petroleum based, to fluctuate based upon worldwide supply and demand of commodities utilized in the Company's production processes. Although the Company attempts to pass on increases in raw material, energy and fuel-related costs to its customers, the Company's ability to do so is dependent upon the rate and magnitude of any increase, competitive pressures and market conditions for the Company's products. There have been in the past, and may be in the future, periods of time during which increases in these costs cannot be fully recovered. In the past, the Company has often been able to enhance productivity and develop new product innovations to help offset increases in costs resulting from inflation in its operations.

**Seasonality**

The Company is a calendar year-end company. With respect to its Global Ceramic segment, the second quarter typically sees higher net sales, followed by the third and first quarters while the fourth quarter shows weaker net sales. For the operating income, the second quarter generally shows the stronger earnings, followed by third and first quarters, and a weaker fourth quarter. The Flooring NA segment's second quarter typically produces the highest net sales followed by moderate third and fourth quarters, and a weaker first quarter. For the operating income, the third quarter typically shows stronger earnings, followed by second and fourth quarters, and the first quarter shows weaker earnings. The Flooring ROW segment's fourth quarter historically produces the highest net sales followed by moderate second and third quarters, and a weaker first quarter. For the operating income, generally, the second quarter shows the stronger earnings, followed by third and first quarters, and the fourth quarter shows weaker earnings.

[Table of Contents](#)[Index to Financial Statements](#)**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

The Company's market risk is impacted by changes in foreign currency exchange rates, interest rates and certain commodity prices. Financial exposures to these risks are monitored as an integral part of the Company's risk management program, which seeks to reduce the potentially adverse effect that the volatility of these markets may have on its operating results. The Company does not regularly engage in speculative transactions, nor does it regularly hold or issue financial instruments for trading purposes. Excluding the hedge of net investment discussed in Note 1(n) "Hedges of Net Investments in Non-U.S. Operations", of the Company's accompanying consolidated financial statements in Item 8 of this Annual Report on Form 10-K, the Company did not have any derivative contracts outstanding as of December 31, 2019 and 2018.

*Interest Rate Risk*

As of December 31, 2019, approximately 46% of the Company's debt portfolio was comprised of fixed-rate debt and 54% was floating-rate debt. The Company believes that probable near-term changes in interest rates would not materially affect its financial condition, results of operations or cash flows. The annual impact on interest expense of a one-percentage point interest rate change on the outstanding balance of the Company's variable rate debt as of December 31, 2019 would be approximately \$12 million or \$0.16 to diluted EPS.

*Foreign Exchange Risk*

As a result of being a global enterprise, there is exposure to market risks from changes in foreign currency exchange rates, which may adversely affect the operating results and financial condition of the Company. Principal foreign currency exposures relate primarily to the euro and to a lesser extent the Russian ruble, the Mexican peso, the Canadian dollar, the Australian dollar, the British pound and the Brazilian real.

The Company's objective is to balance, where possible, non-functional currency denominated assets to non-functional currency denominated liabilities to have a natural hedge and minimize foreign exchange impacts. The Company enters into cross border transactions through importing and exporting goods to and from different countries and locations. These transactions generate foreign exchange risk as they create assets, liabilities and cash flows in currencies other than their functional currency. This also applies to services provided and other cross border agreements among subsidiaries.

The Company takes steps to minimize risks from foreign currency exchange rate fluctuations through normal operating and financing activities. The Company does not enter into any speculative positions with regard to derivative instruments.

Based on financial results for the year ended December 31, 2019, a hypothetical overall 10 percent change in the U.S. dollar against the euro would have resulted in a translational adjustment of approximately \$44 million.



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**Item 8. Consolidated Financial Statements and Supplementary Data**

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[Table of Contents](#)[Index to Financial Statements](#)**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors  
Mohawk Industries, Inc.:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Mohawk Industries, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

*Adoption of ASU 2016-02*

As discussed in Note 11 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of ASU 2016-02, *Leases*, and subsequently issued additional ASUs amending this ASU (collectively ASC 842, *Leases*).

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Critical Audit Matters*

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

*Assessment of the carrying value of goodwill in the Flooring North America and Global Ceramic reporting units*

As discussed in Note 7 to the consolidated financial statements, the goodwill balance as of December 31, 2019 was \$2.57 billion, of which \$531.1 million and \$1.05 billion related to the Flooring North America reporting unit and the Global Ceramic reporting unit, respectively. The Company performs goodwill impairment testing on an annual basis and whenever events or changes in circumstances indicate that the carrying value of goodwill might exceed the fair value of a reporting unit. The reporting units' operating income declined during 2019 due to lower sales volumes and other operational and market conditions, indicating that there could be a higher risk of goodwill impairment.

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We identified the assessment of the carrying value of goodwill in the Flooring North America and Global Ceramic reporting units as a critical audit matter. Specifically, the assessment of the Company's forecasted sales growth rates, forecasted operating margins, discount rates, and selection of comparable company market multiples used in the Company's fair value estimation of the reporting units required a higher degree of subjective auditor judgment. Changes in these assumptions could have a significant impact on the fair value of the reporting units.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's goodwill impairment assessment process including controls over the reasonableness of the assumptions listed above. We evaluated the Company's forecasted sales growth rates and operating margins for each reporting unit, and compared the growth assumptions to the Company's historical performance and to relevant market data. To assess the Company's ability to estimate cash flows, including sales growth rates and operating margins, we compared the Company's historical cash flow forecasts to actual results. We also performed sensitivity analyses over certain assumptions listed above to assess their impact on the Company's determination that the fair value of the Flooring North America and Global Ceramic reporting units exceeded their carrying values. We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating (1) the reporting units' discount rates by comparing them to discount rates that were independently developed using publicly available market data for comparable companies, (2) the Company's selection of comparable company market multiples and (3) the valuation methodologies used by the Company to estimate the Flooring North America and Global Ceramic reporting units' fair values.

*Evaluation of the impact of implemented restructurings in various European jurisdictions on foreign income tax liabilities, deferred tax assets and income tax expense*

As discussed in Note 14 to the consolidated financial statements, for the year ended December 31, 2019, the Company implemented select operational, administrative and financial restructurings that centralized certain business processes and intangible assets in various European jurisdictions into a new entity. The restructurings resulted in a current income tax liability of \$148.2 million, calculated in part by measuring the fair value of intangible assets transferred. The Company offset the income tax liability with the utilization of \$148.2 million of deferred tax assets from accumulated net operating loss carry forwards. The restructurings also resulted in the Company recording a \$136.2 million deferred tax asset, and a corresponding deferred tax benefit, related to the tax basis of the intangible assets in the new entity.

We identified the evaluation of the impact of the above mentioned restructurings on foreign income tax liabilities, deferred tax assets and income tax expense as a critical audit matter. The assessment of the Company's forecasted income and operating margins and discount rate used in the Company's fair value estimation of the intangible assets to determine the related foreign current tax liability required a high degree of subjective auditor judgment. Further, a high degree of complex auditor judgment was required to assess the application of the relevant tax regulations to the Company's restructuring and the impact on deferred tax assets and income tax expense.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's intangible assets fair value estimation and income tax process, including controls over the determination of the fair value assumptions listed above and the interpretation and application of tax regulations. We evaluated the Company's forecasted income and operating margins and compared the income assumptions to its historical performance and relevant market data. To assess the Company's ability to estimate cash flows, including income and operating margins, we compared the historical cash flow forecasts for the intangible assets to actual results. We also performed sensitivity analyses over certain assumptions to assess their impact on the Company's determination of the fair value of the intangible assets. We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating (1) the Company's discount rate by comparing it to a discount rate that was independently developed using publicly available market data for comparable companies and (2) the valuation methodology used by the Company to estimate the intangible assets' fair value. We also involved international income tax professionals with specialized skills and knowledge, who assisted in assessing the Company's application of the relevant tax regulations and measuring the tax effects resulting from the restructurings.

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*Evaluation of the realizability of the deferred tax asset related to certain foreign intangible assets*

As discussed in Note 14 to the consolidated financial statements, as of December 31, 2019, the Company had a \$136.2 million deferred tax asset related to amortization of the tax basis of certain intangible assets in a foreign entity. The Company determined that projected future income of the entity will be sufficient to fully realize the deferred tax asset and accordingly has not recorded a valuation allowance. Assessments of future income could impact the valuation of deferred tax assets.

We identified the evaluation of the realizability of the deferred tax asset related to certain foreign intangible assets as a critical audit matter. The assessment of certain assumptions in the Company's projection of future income over the long-term deferred tax asset recovery period required a high degree of subjective auditor judgment.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the deferred tax asset valuation allowance process, including controls over the assessment of the realizability of the deferred tax asset and development of certain assumptions for projected future income. We evaluated the Company's forecasted income and operating margins and compared the income assumptions to its historical performance and relevant market data. To assess the Company's ability to estimate future income, we compared the historical forecasts for the intangible assets to actual results. We also performed sensitivity analyses over certain assumptions to assess their impact on the Company's realizability assessment. We involved income tax professionals with specialized skills and knowledge who assisted in assessing the Company's application of the relevant tax regulations. They also assisted in evaluating the tax planning strategies and the related impact of those strategies on the future projected income of the entity used in the realizability assessment.

/s/ KPMG LLP

We have served as the Company's auditor since 1990.

Atlanta, Georgia  
February 28, 2020

[Table of Contents](#)[Index to Financial Statements](#)**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors  
Mohawk Industries, Inc.:

*Opinion on Internal Control Over Financial Reporting*

We have audited Mohawk Industries, Inc.'s and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 28, 2020 expressed an unqualified opinion on those consolidated financial statements.

*Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

*Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Atlanta, Georgia  
February 28, 2020

[Table of Contents](#)[Index to Financial Statements](#)**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES****Consolidated Balance Sheets  
December 31, 2019 and 2018**

	2019	2018
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 134,785	119,050
Receivables, net	1,526,619	1,606,159
Inventories	2,282,328	2,287,615
Prepaid expenses	415,546	421,553
Other current assets	70,179	74,919
Total current assets	4,429,457	4,509,296
Property, plant and equipment, net	4,698,917	4,699,902
Right of use operating lease assets	323,003	-
Goodwill	2,570,027	2,520,966
Tradenames	702,732	707,380
Other intangible assets, net	226,147	254,430
Deferred income taxes and other non-current assets	436,397	407,149
	<u>\$ 13,386,680</u>	<u>13,099,123</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 1,051,498	1,742,373
Accounts payable and accrued expenses	1,559,140	1,523,866
Current operating lease liabilities	101,945	-
Total current liabilities	2,712,583	3,266,239
Deferred income taxes	473,886	413,740
Long-term debt, less current portion	1,518,388	1,515,601
Non-current operating lease liabilities	228,155	-
Other long-term liabilities	327,220	463,484
Total liabilities	<u>5,260,232</u>	<u>5,659,064</u>
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, \$.01 par value; 60 shares authorized; no shares issued	-	-
Common stock, \$.01 par value; 150,000 shares authorized; 78,980 and 79,656 shares issued in 2019 and 2018, respectively	790	797
Additional paid-in capital	1,868,250	1,852,173
Retained earnings	7,232,337	6,588,197
Accumulated other comprehensive loss	(765,824)	(791,608)
	<u>8,335,553</u>	<u>7,649,559</u>
Less: treasury stock at cost; 7,348 and 7,349 shares in 2019 and 2018, respectively	215,712	215,745
Total Mohawk Industries, Inc. stockholders' equity	8,119,841	7,433,814
Noncontrolling interest	6,607	6,245
Total stockholders' equity	<u>8,126,448</u>	<u>7,440,059</u>
	\$ 13,386,680	13,099,123

See accompanying notes to consolidated financial statements.

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## MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations  
Years Ended December 31, 2019, 2018 and 2017

	2019	2018	2017
	(In thousands, except per share data)		
Net sales	\$ 9,970,672	9,983,634	9,491,290
Cost of sales	7,294,629	7,145,564	6,494,876
Gross profit	2,676,043	2,838,070	2,996,414
Selling, general and administrative expenses	1,848,819	1,742,744	1,642,241
Operating income	827,224	1,095,326	1,354,173
Interest expense	41,272	38,827	31,111
Other expense	36,407	7,298	5,205
Earnings before income taxes	749,545	1,049,201	1,317,857
Income tax expense	4,974	184,346	343,165
Net earnings including noncontrolling interest	744,571	864,855	974,692
Net earnings attributable to noncontrolling interest	360	3,151	3,054
Net earnings attributable to Mohawk Industries, Inc.	\$ 744,211	861,704	971,638
<b>Basic earnings per share attributable to Mohawk Industries, Inc.</b>			
Basic earnings per share attributable to Mohawk Industries, Inc.	\$ 10.34	11.53	13.07
Weighted-average common shares outstanding-basic	71,986	74,413	74,357
<b>Diluted earnings per share attributable to Mohawk Industries, Inc.</b>			
Diluted earnings per share attributable to Mohawk Industries, Inc.	\$ 10.30	11.47	12.98
Weighted-average common shares outstanding-diluted	72,264	74,773	74,839

See accompanying notes to consolidated financial statements.

[Table of Contents](#)[Index to Financial Statements](#)**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income (Loss)  
Years Ended December 31, 2019, 2018 and 2017**

	2019	2018	2017
	(in thousands)		
Net earnings including noncontrolling interest	\$ 744,571	864,855	974,692
Other comprehensive (loss) income:			
Foreign currency translation adjustments	28,996	(237,339)	281,655
Prior pension and post-retirement benefit service cost and actuarial loss (gain)	(3,210)	1,094	(2,927)
Other comprehensive income (loss)	25,786	(236,245)	278,728
Comprehensive income	770,357	628,610	1,253,420
Comprehensive income (loss) attributable to the non-controlling interest	360	(13)	7,282
Comprehensive income attributable to Mohawk Industries, Inc.	\$ 769,997	628,623	1,246,138

See accompanying notes to consolidated financial statements.



[Table of Contents](#)[Index to Financial Statements](#)**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity  
Years Ended December 31, 2019, 2018 and 2017**

	Redeemable Noncontrolling Interest	Total Stockholders' Equity									Total Stockholders' Equity
		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Noncontrolling Interest		
		Shares	Amount				Shares	Amount			
(In thousands)											
Balances at December 31, 2016	\$ 23,696	81,519	\$ 815	\$ 1,791,540	\$ 5,032,914	\$ (833,027)	(7,351)	\$ (215,791)	\$ 7,036	\$ 5,783,487	
Shares issued under employee and director stock plans	-	252	3	269	-	-	1	25	-	297	
Stock-based compensation expense	-	-	-	36,322	-	-	-	-	-	36,322	
Distribution to noncontrolling interest, net of adjustments	-	-	-	-	-	-	-	-	(750)	(750)	
Accretion of redeemable noncontrolling interest	46	-	-	-	(46)	-	-	-	-	(46)	
Noncontrolling earnings	2,544	-	-	-	-	-	-	-	510	510	
Currency translation adjustment on noncontrolling interests	3,177	-	-	-	-	-	-	-	1,051	1,051	
Currency translation adjustment	-	-	-	-	-	277,427	-	-	-	277,427	
Prior pension and post-retirement benefit service cost and actuarial loss	-	-	-	-	-	(2,927)	-	-	-	(2,927)	
Net income	-	-	-	-	971,638	-	-	-	-	971,638	
Balances at December 31, 2017	29,463	81,771	818	1,828,131	6,004,506	(558,527)	(7,350)	(215,766)	7,847	7,067,009	
Shares issued under employee and director stock plans	-	191	2	(8,400)	-	-	1	21	-	(8,377)	
Stock-based compensation expense	-	-	-	31,382	-	-	-	-	-	31,382	
Repurchases of common stock	-	(2,306)	(23)	-	(274,121)	-	-	-	-	(274,144)	
Accretion of redeemable noncontrolling interest	3,892	-	-	-	(3,892)	-	-	-	-	(3,892)	
Noncontrolling earnings	2,474	-	-	-	-	-	-	-	677	677	
Currency translation adjustment on non-controlling interests	(1,945)	-	-	-	-	-	-	-	(1,219)	(1,219)	
Purchase of redeemable noncontrolling interest and noncontrolling interest, net of taxes	(33,884)	-	-	1,060	-	-	-	-	(1,060)	-	
Currency translation adjustment	-	-	-	-	-	(234,175)	-	-	-	(234,175)	
Prior pension and post-retirement benefit service cost and actuarial loss	-	-	-	-	-	1,094	-	-	-	1,094	
Net income	-	-	-	-	861,704	-	-	-	-	861,704	
Balances at December 31, 2018	-	79,656	797	1,852,173	6,588,197	(791,608)	(7,349)	(215,745)	6,245	7,440,059	
Shares issued under employee and director stock plans	-	130	1	(7,543)	-	-	1	33	-	(7,509)	
Stock-based compensation expense	-	-	-	23,620	-	-	-	-	-	23,620	
Repurchases of common stock	-	(806)	(8)	-	(100,071)	-	-	-	-	(100,079)	
Noncontrolling earnings	-	-	-	-	-	-	-	-	360	360	
Currency translation adjustment	-	-	-	-	-	28,994	-	-	2	28,996	
Prior pension and post-retirement benefit service cost and actuarial gain	-	-	-	-	-	(3,210)	-	-	-	(3,210)	
Net income	-	-	-	-	744,211	-	-	-	-	744,211	
Balances at December 31, 2019	\$ -	78,980	\$ 790	\$ 1,868,250	\$ 7,232,337	\$ (765,824)	(7,348)	\$ (215,712)	\$ 6,607	\$ 8,126,448	

See accompanying notes to consolidated financial statements.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2019, 2018 and 2017**

	2019	2018	2017
		(In thousands)	
Cash flows from operating activities:			
Net earnings	\$ 744,571	864,855	974,692
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Restructuring	90,341	58,991	37,085
Depreciation and amortization	576,452	521,765	446,672
Deferred income taxes	(107,842)	88,456	(75,591)
Loss on disposal of property, plant and equipment	1,608	(205)	4,303
Stock-based compensation expense	23,620	31,382	36,322
Impairment of net investment in a manufacturer and distributor of ceramic tile in China	59,906	-	-
Changes in operating assets and liabilities, net of effects of acquisitions:			
Receivables, net	81,953	13,856	(60,566)
Inventories	7,212	(255,391)	(153,245)
Accounts payable and accrued expenses	(52,065)	(69,847)	25,365
Other assets and prepaid expenses	3,625	(79,482)	(52,115)
Other liabilities	(10,620)	6,964	10,673
Net cash provided by operating activities	1,418,761	1,181,344	1,193,595
Cash flows from investing activities:			
Additions to property, plant and equipment	(545,462)	(794,110)	(905,998)
Acquisitions, net of cash acquired	(81,082)	(568,960)	(250,799)
Purchases of short-term investments	(581,500)	(664,133)	(83,904)
Redemption of short-term investments	592,000	695,000	-
Net cash used in investing activities	(616,044)	(1,332,203)	(1,240,701)
Cash flows from financing activities:			
Payments on Senior Credit Facilities	(488,978)	(813,182)	(454,637)
Proceeds from Senior Credit Facilities	448,587	809,287	447,884
Payments on Commercial Paper	(15,168,820)	(16,756,404)	(15,584,017)
Proceeds from Commercial Paper	14,540,177	16,988,398	15,761,954
Proceeds from Floating Rate Notes	331,325	353,649	357,569
Payments on asset securitization borrowings	-	-	(500,000)
Payments on Floating Rate Notes	(331,325)	-	-
Payments on other debt	(4,295)	-	-
Payments on acquired debt and other financings	-	(69,571)	(18,811)
Debt issuance costs	(3,028)	(890)	(1,478)
Purchase of redeemable non-controlling and non-controlling interest	-	(34,944)	-
Repurchases of common stock	(100,080)	(274,144)	-
Change in outstanding checks in excess of cash	(4,664)	5,753	(3,402)
Shares redeemed for taxes	(8,777)	(9,925)	(13,902)
Proceeds and net tax benefit from stock transactions	1	2	1,845
Net cash (used in) provided by financing activities	(789,877)	198,029	(6,995)
Effect of exchange rate changes on cash and cash equivalents	2,895	(13,004)	17,320
Net change in cash and cash equivalents	15,735	34,166	(36,781)
Cash and cash equivalents, beginning of year	119,050	84,884	121,665
Cash and cash equivalents, end of year	\$ 134,785	119,050	84,884

See accompanying notes to consolidated financial statements.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**Years Ended December 31, 2019, 2018 and 2017**  
**(In thousands, except per share data)**

**(1)**  
**Summary of Significant Accounting Policies**

*(a)*  
*Basis of Presentation*

Mohawk Industries, Inc. (“Mohawk” or the “Company”), a term which includes the Company and its subsidiaries, is a leading global flooring manufacturer that creates products to enhance residential and commercial spaces around the world. The Company's vertically integrated manufacturing and distribution processes provide competitive advantages in the production of carpet, rugs, ceramic tile, laminate, wood, stone, luxury vinyl tile (“LVT”) and sheet vinyl flooring.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*(b) Cash and Cash Equivalents*

The Company considers investments with an original maturity of three months or less when purchased to be cash equivalents. As of December 31, 2019, the Company had cash of \$ 134,785 of which \$110,033 was held outside the United States. As of December 31, 2018, the Company had cash of \$119,050 of which \$88,100 was held outside the United States.

*(c) Accounts Receivable and Revenue Recognition*

On January 1, 2018, the Company adopted the new accounting standard, ASC 606, *Revenue from Contracts with Customers* and all the related amendments (“ASC 606”) and applied the provisions of the standard to all contracts using the modified retrospective method. The cumulative effect of adopting the new revenue standard was immaterial and no adjustment has been recorded to the opening balance of retained earnings. Prior year information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The Company recognizes revenues when it satisfies performance obligations as evidenced by the transfer of control of the promised goods to customers, when the product is either shipped or received from the Company’s facilities, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods. The Company reviewed all of its revenue product categories under ASC 606 and the only changes identified were that an immaterial amount of revenue from intellectual property (“IP”) contracts results in earlier recognition of revenue, new controls and processes designed to meet the requirements of the standard were implemented, and the required new disclosures are presented in Note 3, Revenue from Contracts with Customers. The adoption of ASC 606 did not have a material impact on the amounts reported in the Company’s consolidated financial position, results of operations or cash flows.

*(d) Inventories*

The Company accounts for all inventories on the first-in, first-out (“FIFO”) method. Inventories are stated at the lower of cost or net realizable value. Cost has been determined using the FIFO method. Costs included in inventory include raw materials, direct and indirect labor and employee benefits, depreciation, general manufacturing overhead and various other costs of manufacturing. Inventories on hand are compared against anticipated future usage, which is a function of historical usage, anticipated future selling price, expected sales below cost, excessive quantities and an evaluation for obsolescence.

*(e) Property, Plant and Equipment*

Property, plant and equipment are stated at cost, including capitalized interest. Depreciation is calculated on a straight-line basis over the estimated remaining useful lives, which are 15-40 years for buildings and improvements, 3-25 years for machinery and equipment, the shorter of the estimated useful life or lease term for leasehold improvements and 3-7 years for furniture and fixtures.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

*(f) Accounting for Business Combinations*

The Company accounts for business combinations under the acquisition method of accounting which requires it to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations.

*(g) Goodwill and Other Intangible Assets*

In accordance with the provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic ("ASC") 350, *Intangibles-Goodwill and Other*, the Company tests goodwill and other intangible assets with indefinite lives for impairment on an annual basis on the first day of the fourth quarter (or on an interim basis if an event occurs that might reduce the fair value of the reporting unit below its carrying value). The Company considers the relationship between its market capitalization and its book value, among other factors, when reviewing for indicators of impairment. The goodwill impairment tests are based on determining the fair value of the specified reporting units based on management's judgments and assumptions using the discounted cash flows and comparable company market valuation approaches. The Company has identified Global Ceramic, Flooring NA, and Flooring ROW as its reporting units for the purposes of allocating goodwill and intangibles as well as assessing impairments. The valuation approaches are subject to key judgments and assumptions that are sensitive to change such as judgments and assumptions about appropriate sales growth rates, operating margins, weighted average cost of capital ("WACC"), and comparable company market multiples.

When developing these key judgments and assumptions, the Company considers economic, operational and market conditions that could impact the fair value of the reporting unit. However, estimates are inherently uncertain and represent only management's reasonable expectations regarding future developments. These estimates and the judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results. Should a significant or prolonged deterioration in economic conditions occur, such as continued declines in spending for new construction, remodeling and replacement activities; the inability to pass increases in the costs of raw materials and fuel on to customers; or a decline in comparable company market multiples, then key judgments and assumptions could be impacted.

The impairment evaluation for indefinite lived intangible assets, which for the Company are its trademarks, is conducted on the first day of the fourth quarter of each year, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The first step of the impairment tests for indefinite lived intangible assets may be completed through an assessment of qualitative factors to determine the existence of events or circumstances that would indicate that it is not more likely than not that the fair value of these assets is less than their carrying amounts. If the qualitative assessment indicates it is not more likely than not that the fair value of these assets is less than their carrying amounts, a quantitative impairment test is not required. If a quantitative test is necessary, the Company estimates the fair value of the intangible asset and compares it to its carrying amount. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The Company may also elect to bypass the qualitative assessment and perform a quantitative impairment test in any period. If the Company elects to perform a quantitative impairment test, it may resume the qualitative assessment in subsequent periods.

The determination of fair value used in the impairment evaluation is based on discounted estimates of future sales projections attributable to ownership of the trademarks. Significant judgments inherent in this analysis include assumptions about appropriate sales growth rates, royalty rates, applicable discount rate and the amount of expected future cash flows. The judgments and assumptions used in the estimate of fair value are generally consistent with past performance and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. The determination of fair value is highly sensitive to differences between estimated and actual cash flows and changes in the related discount rate used to evaluate the fair value of the trademarks. Estimated cash flows are sensitive to changes in the economy among other things.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
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Intangible assets that do not have indefinite lives are amortized based on average lives, which range from 7-16 years.

*(h) Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits in income tax expense.

*(i) Financial Instruments*

The Company's financial instruments consist primarily of receivables, accounts payable, accrued expenses and long-term debt. The carrying amounts of receivables, accounts payable and accrued expenses approximate their fair value because of the short-term maturity of such instruments. The Company formed a wholly-owned captive insurance company during 2017 that invests in the Company's commercial paper. These short-term commercial paper investments are classified as trading securities and carried at fair value based upon level two fair value hierarchy. The carrying amount of the Company's floating rate debt approximates its fair value based upon level two fair value hierarchy. Interest rates that are currently available to the Company for issuance of long-term debt with similar terms and remaining maturities are used to estimate the fair value of the Company's long-term debt.

*(j) Advertising Costs and Vendor Consideration*

Advertising and promotion expenses are charged to earnings during the period in which they are incurred. Advertising and promotion expenses included in selling, general, and administrative expenses were \$130,207 in 2019, \$116,854 in 2018 and \$119,560 in 2017.

Vendor consideration, generally cash, is classified as a reduction of net sales, unless specific criteria are met regarding goods or services that the Company may receive in return for this consideration. The Company makes various payments to customers, including rebates, slotting fees, advertising allowances, buy-downs and co-op advertising. All of these payments reduce gross sales with the exception of co-op advertising. Co-op advertising is classified as a selling, general and administrative expense. Co-op advertising expenses, a component of advertising and promotion expenses, were \$11,418 in 2019, \$13,332 in 2018 and \$10,891 in 2017.

*(k) Product Warranties*

The Company warrants certain qualitative attributes of its flooring products. The Company has recorded a provision for estimated warranty and related costs, based on historical experience and periodically adjusts these provisions to reflect actual experience.

*(l) Impairment of Long-Lived Assets*

The Company reviews its long-lived asset groups, which include intangible assets subject to amortization, which for the Company are its patents and customer relationships, for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset groups may not be recoverable. Recoverability of asset groups to be held and used is measured by a comparison of the carrying amount of long-lived assets to future undiscounted net cash flows expected to be generated by these asset groups. If such asset groups are considered to be impaired, the impairment recognized is the amount by which the carrying amount of the asset group exceeds the fair value of the asset group. Assets held for sale are reported at the lower of the carrying amount or fair value less estimated costs of disposal and are no longer depreciated.

*(m) Foreign Currency Translation*

The Company's subsidiaries that operate outside the United States use their local currency as the functional currency. The functional currency is translated into U.S. Dollars for balance sheet accounts using the month end rates in effect as of the balance sheet date and average exchange rate for revenue and expense accounts for each respective period. The translation

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adjustments are deferred as a separate component of stockholders' equity, within accumulated other comprehensive income (loss). Gains or losses resulting from transactions denominated in foreign currencies are included in other income or expense, within the consolidated statements of operations.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

*(n) Hedges of Net Investments in Non-U.S. Operations*

The Company has numerous investments outside the United States. The net assets of these subsidiaries are exposed to changes and volatility in currency exchange rates. The Company uses foreign currency denominated debt to hedge its non-U.S. net investments against adverse movements in exchange rates. The gains and losses on the Company's net investments in its non-U.S. operations are economically offset by losses and gains on its foreign currency borrowings. The Company designated its €500,000 2.00% Senior Notes borrowing as a net investment hedge of a portion of its European operations. For the years ended December 31, 2019, December 31, 2018 and December 31, 2017 the change in the U.S. dollar value of the Company's euro denominated debt was a decrease of \$12,049 (\$9,153 net of taxes), a decrease of \$27,948 (\$20,376 net of taxes) and an increase of \$74,112 (\$46,320 net of taxes), respectively, which is recorded in the foreign currency translation adjustment component of accumulated other comprehensive income (loss). The increase in the U.S. dollar value of the Company's debt partially offsets the euro-to-dollar translation of the Company's net investment in its European operations.

*(o) Earnings per Share ("EPS")*

Basic net earnings per share ("EPS") is calculated using net earnings available to common stockholders divided by the weighted-average number of shares of common stock outstanding during the year. Diluted EPS is similar to basic EPS except that the weighted-average number of shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued.

Dilutive common stock options are included in the diluted EPS calculation using the treasury stock method. There were no common stock options and unvested restricted shares (units) that were excluded from the diluted EPS computation because the price was greater than the average market price of the common shares for the periods presented for 2019, 2018 and 2017.

Computations of basic and diluted earnings per share are presented in the following table:

	2019	2018	2017
Earnings attributable to Mohawk Industries, Inc.	\$ 744,211	861,704	971,638
Accretion of redeemable noncontrolling interest <sup>(a)</sup>	-	(3,892)	(46)
Net earnings available to common stockholders	<u>\$ 744,211</u>	<u>857,812</u>	<u>971,592</u>
Weighted-average common shares outstanding-basic and diluted:			
Weighted-average common shares outstanding - basic	71,986	74,413	74,357
Add weighted-average dilutive potential common shares - options and RSUs to purchase common shares, net	<u>278</u>	<u>360</u>	<u>482</u>
Weighted-average common shares outstanding-diluted	<u>72,264</u>	<u>74,773</u>	<u>74,839</u>
Earnings per share attributable to Mohawk Industries, Inc.			
Basic	<u>\$ 10.34</u>	<u>11.53</u>	<u>13.07</u>
Diluted	<u>\$ 10.30</u>	<u>11.47</u>	<u>12.98</u>

<sup>(a)</sup> Represents the accretion of the Company's redeemable noncontrolling interest to redemption value. The holder put this option to the Company on December 20, 2018 for \$33,884.

*(p) Stock-Based Compensation*

The Company recognizes compensation expense for all share-based payments granted based on the grant-date fair value estimated in accordance with ASC 718-10, "Stock Compensation". Compensation expense is generally recognized on a straight-line basis over the awards' estimated lives for fixed awards with ratable vesting provisions.

*(q) Employee Benefit Plans*

The Company has a 401(k) retirement savings plan (the "Mohawk Plan") open to substantially all U.S. and Puerto Rico based employees who have completed 60 days of eligible service. The Company contributes \$.50 for every \$1.00 of employee contributions up to a maximum of 6% of the employee's salary based upon each individual participants election. Employee and

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
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employer contributions to the Mohawk Plan were \$57,354 and \$23,008 in 2019, \$55,796 and \$22,689 in 2018 and \$53,544 and \$22,039 in 2017, respectively.

The Company also has various pension plans covering employees in Belgium, France, and the Netherlands (the “Non-U.S. Plans”) within the Flooring ROW segment. Benefits under the Non-U.S. Plans depend on compensation and years of service. The Non-U.S. Plans are funded in accordance with local regulations. The Company uses December 31 as the measurement date for its Non-U.S. Plans. The Company’s projected benefit obligation and plan assets as of December 31, 2019 were \$73,510 and \$60,040, respectively. The Company’s projected benefit obligation and plan assets as of December 31, 2018 were \$63,569 and \$54,315, respectively. As of December 31, 2019, the funded status of the Non-U.S. Plans was a liability of \$13,470 of which \$8,303 was recorded in accumulated other comprehensive income, for a net liability of \$5,167 recorded in other long-term liabilities within the consolidated balance sheets. As of December 31, 2018, the funded status of the Non-U.S. Plans was a liability of \$9,254 of which \$5,092 was recorded in accumulated other comprehensive income, for a net liability of \$4,162 recorded in other long-term liabilities within the consolidated balance sheets.

*(r) Comprehensive Income (Loss)*

Comprehensive income (loss) includes foreign currency translation of assets and liabilities of foreign subsidiaries, effects of exchange rate changes on intercompany balances of a long-term nature and pensions. The Company does not provide income taxes on currency translation adjustments, as earnings from foreign subsidiaries are considered to be indefinitely reinvested. The Company presents currency translation adjustments on non-controlling interests separately from currency translation adjustments on controlling interests in accumulated other comprehensive income (loss) within stockholders’ equity.

The changes in accumulated other comprehensive income (loss) by component, net of tax, for years ended December 31, 2019, 2018 and 2017 are as follows:

	Foreign currency translation adjustments	Pensions and post- retirement benefits	Total
Balance as of December 31, 2016	\$ (825,354)	(7,673)	(833,027)
Current period other comprehensive income (loss) before reclassifications	277,427	(2,927)	274,500
Amounts reclassified from accumulated other comprehensive loss	-	-	-
Balance as of December 31, 2017	(547,927)	(10,600)	(558,527)
Current period other comprehensive income (loss) before reclassifications	(234,175)	1,094	(233,081)
Amounts reclassified from accumulated other comprehensive income	-	-	-
Balance as of December 31, 2018	(782,102)	(9,506)	(791,608)
Current period other comprehensive income (loss) before reclassifications	28,994	(3,210)	25,784
Amounts reclassified from accumulated other comprehensive income (loss)	-	-	-
Balance as of December 31, 2019	<u>\$ (753,108)</u>	<u>(12,716)</u>	<u>(765,824)</u>

*(s) Self-Insurance Reserves*

The Company is self-insured in the U.S. for various levels of general liability, auto liability, workers’ compensation and employee medical coverage. Insurance reserves are calculated on an undiscounted basis based on actual claim data and estimates of incurred but not reported claims developed utilizing historical claim trends. Projected settlements and incurred but not reported claims are estimated based on pending claims and historical trends and data. Though the Company does not expect them to do so, actual settlements and claims could differ materially from those estimated. Material differences in actual settlements and claims could have an adverse effect on the Company’s results of operations and financial condition.

In the fourth quarter of 2017, the Company formed a wholly-owned captive insurance company, Mohawk Assurance Services, Inc. (“MAS”). MAS insures the retained portion of the Company’s U.S. workers’ compensation, automobile liability and general liability exposures. The Company funded MAS with an initial cash contribution of \$16,876 as a contribution to equity and \$67,391 as the net present value of premiums owed by the Company for the insurance provided by MAS. MAS began providing coverage to the Company as of December 22, 2017. MAS had investments of \$42,500 and \$53,000 in the Company’s commercial paper as of December 31, 2019 and 2018, respectively.



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*(t) Fiscal Year*

The Company ends its fiscal year on December 31. Each of the first three quarters in the fiscal year ends on the Saturday nearest the calendar quarter end with a thirteen week fiscal quarter.

*(u) Recent Accounting Pronouncements*

*- Effective in Future Years*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and in November 2018 issued ASU 2018-19, which amended the standard. The standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The new approach to estimating credit losses (referred to as the current expected credit losses model) applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures. This standard is effective for the Company on January 1, 2020. Entities are required to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. Currently, the Company is assessing the impact of the new guidance. The Company does not expect the adoption of the guidance to have a significant impact on its financial statements.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes* which simplified the accounting for income taxes in several areas by removing certain exceptions and by clarifying and amending existing guidance applicable to accounting for income taxes. The amendment is effective commencing in 2021 with early adoption permitted. The Company is currently evaluating the impact that the adoption of this accounting standards update will have on its consolidated financial statements.

*- Recently Adopted*

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and other (Topic 350): Simplifying the test for goodwill impairment*. The amendments remove the second step of the current goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. This guidance is effective for impairment tests in fiscal years beginning after December 15, 2019. The effect of adopting the new standard was not material.

In February 2016, the FASB issued a new standard ASU 2016-02, *Leases*, and subsequently issued additional ASUs amending this ASU (collectively ASC 842, *Leases*). ASC 842 was issued to increase transparency and comparability among organizations by requiring the recognition of right of use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Company adopted the provisions of ASC 842 on January 1, 2019 using a modified retrospective approach through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption in line with the new transition method allowed under ASU 2018-11. ASC 842 provides a number of optional practical expedients in transition. The Company elected the "package of practical expedients" which permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company did not elect the use-of-hindsight and elected the practical expedient pertaining to land easements. The new standard also provides practical expedients for an entity's ongoing accounting for leases. The Company elected the short-term lease exemption for all leases that qualify, meaning the Company will not recognize ROU assets or lease liabilities for leases with terms shorter than twelve months. The Company also elected the practical expedient to not separate lease and non-lease components for a majority of its asset classes, including real estate and most equipment.

The adoption of ASC 842 had a material impact on the Company's condensed consolidated balance sheets, but did not have a material impact on the Company's condensed consolidated statements of operations or cashflow. The most significant impact was the recognition of ROU assets of \$328,169 and lease liabilities for operating leases of \$332,286 at January 1, 2019, based on the present value of the future minimum rental payments for existing operating leases. The difference in the balances is

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
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due to deferred rent, tenant incentive allowances and prepaid amounts taken into account for adoption. The Company's accounting for finance leases remained substantially unchanged. See Note 11, Leases.

On January 1, 2019, the Company adopted the new accounting standard, ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The standard permits entities to reclassify, to retained earnings, the one-time income tax effects stranded in accumulated other comprehensive income arising from the change in the U.S. federal corporate tax rate as a result of the Tax Cuts and Jobs Act of 2017. The effect of adopting the new standard was not material.

On January 1, 2018, the Company adopted the new accounting standard, ASC 606, *Revenue from Contracts with Customers* and all the related amendments ("ASC 606") and applied the provisions of the standard to all contracts using the modified retrospective method. The cumulative effect of adopting the new revenue standard was immaterial and no adjustment has been recorded to the opening balance of retained earnings. 2017 information has not been restated and continues to be reported under the accounting standards in effect for those periods.

Substantially all of the Company's revenue continues to be recognized at a point in time when the product is either shipped or received from the Company's facilities and control of the product is transferred to the customer. The Company reviewed all of its revenue product categories under ASC 606 and the only changes identified were that an immaterial amount of revenue from intellectual property ("IP") contracts results in earlier recognition of revenue, new controls and processes designed to meet the requirements of the standard were implemented, and the required new disclosures are presented in Note 3, Revenue from Contracts with Customers. The adoption of ASC 606 did not have a material impact on the amounts reported in the Company's consolidated financial position, results of operations or cash flows.

On January 1, 2018, the Company adopted the new accounting standard, ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The effect of adopting the new standard was not material.

On January 1, 2018, the Company adopted the new accounting standard, ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The effect of adopting the new standard was not material.

**(2)**

**Acquisitions**

*2019 Acquisitions*

During 2019, the Company acquired two businesses in the Flooring ROW segment for hard surface flooring distribution companies based in the Netherlands and Czech Republic for \$76,237, resulting in a preliminary goodwill allocation of \$48,008. The results have been included in the Flooring ROW segment and are not material to the Company's consolidated results of operations.

*2018 Acquisitions*

On November 16, 2018, the Company completed its purchase of Eliane S/A Revestimentos Ceramicos ("Eliane"), one of the largest ceramic tile companies in Brazil. Pursuant to the purchase agreement, the Company (i) acquired the entire issued share capital of Eliane and (ii) acquired \$99,037 of indebtedness of Eliane, with total cash consideration paid of \$148,302. The Company's acquisition of Eliane resulted in allocations of goodwill of \$33,019, indefinite-lived tradename intangible assets of \$32,238 and intangible assets subject to amortization of \$5,818. The majority of the goodwill is deductible for tax purposes. The factors contributing to the recognition of the amount of goodwill include product, sales and manufacturing synergies. Eliane's results of operations have been included in the consolidated financial statements since the date of acquisition in the Global Ceramic reporting segment.

On July 2, 2018, the Company completed its acquisition of Godfrey Hirst Group, the leading flooring company in Australia and New Zealand, further extending Mohawk's global position. The total value of the acquisition was \$400,894. The Company's acquisition of Godfrey Hirst Group resulted in allocations of goodwill of \$88,655, indefinite-lived tradename intangible assets of \$58,671 and intangible assets subject to amortization of \$43,635. The goodwill is deductible for tax purposes. The factors contributing to the recognition of the amount of goodwill include product, sales and manufacturing synergies. The Godfrey Hirst Group's results have been included in the condensed consolidated financial statements since the date of acquisition in the Flooring NA and Flooring ROW segments.

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During the first quarter of 2018, the Company completed the acquisition of three businesses in the Flooring ROW segment for \$24,610, resulting in a goodwill allocation of \$12,874 and intangibles subject to amortization of \$7.

*2017 Acquisitions*

On April 4, 2017, the Company completed its purchase of Emilceramica S.r.l (“Emil”), a ceramic company in Italy. The total value of the acquisition was \$186,099. The Emil acquisition will enhance the Company’s cost position and strengthen its combined brand and distribution in Europe. The acquisition’s results and purchase price allocation have been included in the condensed consolidated financial statements since the date of the acquisition. The Company’s acquisition of Emil resulted in a goodwill allocation of \$59,491, indefinite-lived tradename intangible asset of \$16,196 and an intangible asset subject to amortization of \$2,348. The goodwill was not directly deductible for tax purposes. The Emil results are reflected in the Global Ceramic segment and the results of Emil’s operations are not material to the Company’s consolidated results of operations.

During the second quarter of 2017, the Company completed the acquisition of two businesses in the Global Ceramic segment for \$37,250, resulting in a goodwill allocation of \$1,002. The Company also completed the acquisition of a business in the Flooring NA segment for \$26,623.

During the first quarter of 2017, the Company acquired certain assets of a distribution business in the Flooring ROW segment for \$1,407, resulting in intangible assets subject to amortization of \$827.

**(3)**

**Revenue from Contracts with Customers**

*Revenue recognition and accounts receivable*

The Company recognizes revenues when it satisfies performance obligations as evidenced by the transfer of control of the promised goods to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods. The nature of the promised goods are ceramic, stone, carpet, resilient (includes sheet vinyl and LVT), laminate, wood and other flooring products. Payment is typically received 90 days or less from the invoice date. The Company adjusts the amounts of revenue for expected cash discounts, sales allowances, returns, and claims, based upon historical experience. The Company adjusts accounts receivable for doubtful account allowances based upon historical bad debt, claims experience, periodic evaluation of specific customer accounts, and the aging of accounts receivable. If the financial condition of the Company’s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

*Contract liabilities*

The Company historically records contract liabilities when it receives payment prior to fulfilling a performance obligation. Contract liabilities related to revenues are recorded in accounts payable and accrued expenses on the accompanying condensed consolidating balance sheets. The Company had contract liabilities of \$34,959 and \$34,486 as of December 31, 2019 and December 31, 2018, respectively.

*Performance obligations*

Substantially all of the Company’s revenue is recognized at a point in time when the product is either shipped or received from the Company’s facilities and control of the product is transferred to the customer. Accordingly, in any period, the Company does not recognize a significant amount of revenue from performance obligations satisfied or partially satisfied in prior periods and the amount of such revenue recognized during the years ended December 31, 2019, 2018, and 2017 was immaterial.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
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*Costs to obtain a contract*

The Company historically incurs certain incremental costs to obtain revenue contracts. These costs relate to marketing display structures and are capitalized when the amortization period is greater than one year, with the amount recorded in other assets on the accompanying condensed consolidated balance sheets. Capitalized costs to obtain contracts were \$69,039 and \$57,840 as of December 31, 2019 and December 31, 2018, respectively. Amortization expense recognized during 2019 related to these capitalized costs was \$41,819.

*Practical expedients and policy elections*

The Company elected the following practical expedients and policy elections:

- Incremental costs of obtaining a contract is recorded as an expense when incurred in selling, general and administrative expenses if the amortization period is less than one year.
- Shipping and handling activities performed after control has been transferred is accounted for as a fulfillment cost in cost of sales.

*Revenue disaggregation*

The following table presents the Company's segment revenues disaggregated by the geographical market location of customer sales and product categories during the years ended December 31, 2019, 2018 and 2017, respectively:

<b>December 31, 2019</b>	<b>Global Ceramic segment</b>	<b>Flooring NA segment</b>	<b>Flooring ROW segment</b>	<b>Intersegment sales</b>	<b>Total</b>
<b><i>Geographical Markets</i></b>					
United States	\$ 2,131,029	3,688,691	2,873	-	5,822,593
Europe	711,762	6,922	1,813,555	-	2,532,239
Russia	269,142	66	116,187	-	385,395
Other	519,209	148,035	563,201	-	1,230,445
Total	<u>\$ 3,631,142</u>	<u>3,843,714</u>	<u>2,495,816</u>	<u>-</u>	<u>9,970,672</u>
<b><i>Product Categories</i></b>					
Ceramic & Stone	\$ 3,631,142	55,503	-	-	3,686,645
Carpet & Resilient	-	3,136,474	785,295	-	3,921,769
Laminate & Wood	-	651,737	849,340	-	1,501,077
Other <sup>(1)</sup>	-	-	861,181	-	861,181
Total	<u>\$ 3,631,142</u>	<u>3,843,714</u>	<u>2,495,816</u>	<u>-</u>	<u>9,970,672</u>

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<b>December 31, 2018</b>	<b>Global Ceramic segment</b>	<b>Flooring NA segment</b>	<b>Flooring ROW segment</b>	<b>Intersegment sales</b>	<b>Total</b>
<b><i>Geographical Markets</i></b>					
United States	\$ 2,251,233	3,851,267	1,289	-	6,103,789
Europe	714,315	6,487	1,861,890	-	2,582,692
Russia	245,867	2	103,351	-	349,220
Other	341,441	171,392	435,100	-	947,933
Total	<u>\$ 3,552,856</u>	<u>4,029,148</u>	<u>2,401,630</u>	<u>-</u>	<u>9,983,634</u>
<b><i>Product Categories</i></b>					
Ceramic & Stone	\$ 3,552,856	68,337	-	-	3,621,193
Carpet & Resilient	-	3,258,029	645,669	-	3,903,698
Laminate & Wood	-	702,782	850,250	-	1,553,032
Other <sup>(1)</sup>	-	-	905,711	-	905,711
Total	<u>\$ 3,552,856</u>	<u>4,029,148</u>	<u>2,401,630</u>	<u>-</u>	<u>9,983,634</u>

<b>December 31, 2017</b>	<b>Global Ceramic segment</b>	<b>Flooring NA segment</b>	<b>Flooring ROW segment</b>	<b>Intersegment sales</b>	<b>Total</b>
<b><i>Geographical Markets</i></b>					
United States	\$ 2,223,998	3,809,211	2,111	(120)	6,035,200
Europe	645,341	19,100	1,698,628	-	2,363,069
Russia	235,043	(1)	91,033	-	326,075
Other	300,718	182,548	283,680	-	766,946
Total	<u>\$ 3,405,100</u>	<u>4,010,858</u>	<u>2,075,452</u>	<u>(120)</u>	<u>9,491,290</u>
<b><i>Product Categories</i></b>					
Ceramic & Stone	\$ 3,405,100	80,145	-	-	3,485,245
Carpet & Resilient	-	3,219,971	435,931	-	3,655,902
Laminate & Wood	-	710,742	808,675	-	1,519,417
Other <sup>(1)</sup>	-	-	830,846	(120)	830,726
Total	<u>\$ 3,405,100</u>	<u>4,010,858</u>	<u>2,075,452</u>	<u>(120)</u>	<u>9,491,290</u>

<sup>(1)</sup> Other includes roofing elements, insulation boards, chipboards and IP contracts.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
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**(4)****Restructuring, Acquisition Transaction and Integration-Related Costs**

The Company incurs costs in connection with acquiring, integrating and restructuring acquisitions and in connection with its global cost-reduction/productivity initiatives. For example:

- In connection with acquisition activity, the Company typically incurs costs associated with executing the transactions, integrating the acquired operations (which may include expenditures for consulting and the integration of systems and processes), and restructuring the combined company (which may include charges related to employees, assets and activities that will not continue in the combined company); and
- In connection with the Company's cost-reduction/productivity initiatives, it typically incurs costs and charges associated with site closings and other facility rationalization actions including accelerated depreciation and workforce reductions.

Restructuring, acquisition transaction and integration-related costs consisted of the following during the year ended December 31, 2019, 2018 and 2017, respectively (in thousands):

	2019	2018	2017
<b><i>Cost of sales</i></b>			
Restructuring costs	\$ 84,844	43,733	33,109
Acquisition integration-related costs	3,458	3,330	2,916
Restructuring and integration-related costs	<u>\$ 88,302</u>	<u>47,063</u>	<u>36,025</u>
<b><i>Selling, general and administrative expenses</i></b>			
Restructuring costs	\$ 5,497	15,259	3,976
Acquisition transaction-related costs	1,502	4,977	2,751
Acquisition integration-related costs	5,871	11,351	6,188
Restructuring, acquisition and integration-related costs	<u>\$ 12,870</u>	<u>31,587</u>	<u>12,915</u>

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The restructuring activity for the years ended December 31, 2019 and 2018, respectively is as follows (in thousands):

	Lease impairments	Asset write-downs	Severance	Other restructuring costs	Total
Balance as of December 31, 2017	\$ 359	-	584	152	1,095
Provision - Global Ceramic segment	528	1,131	7,113	337	9,109
Provision - Flooring NA segment	236	2,940	4,985	33,807	41,968
Provision - Flooring ROW segment	-	-	4,741	(104)	4,637
Provision - Corporate	-	-	3,278	-	3,278
Cash payments	(726)	-	(12,605)	(30,385)	(43,716)
Non-cash items	-	(4,071)	(230)	(3,557)	(7,858)
Balance as of December 31, 2018	397	-	7,866	250	8,513
Provision - Global Ceramic segment	-	-	5,264	-	5,264
Provision - Flooring NA segment	-	37,820	2,617	33,975	74,412
Provision - Flooring ROW segment	-	3,936	4,615	2,099	10,650
Provision - Corporate	-	-	15	-	15
Cash payments	(376)	-	(16,113)	(19,165)	(35,654)
Non-cash items	-	(41,756)	(142)	(17,043)	(58,941)
Balance as of December 31, 2019	\$ 21	-	4,122	116	4,259

The Company expects the remaining severance and other restructuring costs to be paid over the next year.

(5)

**Receivables**

	December 31, 2019	December 31, 2018
Customers, trade	\$ 1,491,592	1,562,284
Income tax receivable	8,428	17,217
Other	88,520	101,376
	1,588,540	1,680,877
Less allowance for discounts, returns, claims and doubtful accounts	61,921	74,718
Receivables, net	\$ 1,526,619	1,606,159

The following table reflects the activity of allowances for discounts, returns, claims and doubtful accounts for the years ended December 31:

	Balance at beginning of year	Acquisitions	Additions charged to net sales or costs and expenses	Deductions <sup>(1)</sup>	Balance at end of year
2017	\$ 78,335	6,510	308,507	307,249	86,103
2018	86,103	4,240	317,716	333,341	74,718
2019	74,718	382	387,253	400,432	61,921

(1) Represents charge-offs, net of recoveries.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
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**(6)****Inventories**

The components of inventories are as follows:

	December 31, 2019	December 31, 2018
Finished goods	\$ 1,610,742	1,582,112
Work in process	144,639	165,616
Raw materials	526,947	539,887
Total inventories	<u>\$ 2,282,328</u>	<u>2,287,615</u>

**(7)****Goodwill and Other Intangible Assets**

The Company conducted its annual impairment assessment on the first day of the fourth quarter of 2019 and determined the fair values of its reporting units and trademarks exceeded their carrying values. As a result, no impairment was indicated.

The following table summarizes the components of intangible assets:

**Goodwill:**

	Global Ceramic	Flooring NA	Flooring ROW	Total
Balances as of December 31, 2017				
Goodwill	\$ 1,567,872	869,764	1,361,248	3,798,884
Accumulated impairments losses	(531,930)	(343,054)	(452,441)	(1,327,425)
	<u>1,035,942</u>	<u>526,710</u>	<u>908,807</u>	<u>2,471,459</u>
Goodwill recognized during the year	19,821	4,434	95,483	119,738
Currency translation during the year	(22,706)	-	(47,525)	(70,231)
Balances as of December 31, 2018				
Goodwill	1,564,987	874,198	1,409,206	3,848,391
Accumulated impairments losses	(531,930)	(343,054)	(452,441)	(1,327,425)
	<u>1,033,057</u>	<u>531,144</u>	<u>956,765</u>	<u>2,520,966</u>
Goodwill recognized during the year	13,197	-	49,619	62,816
Currency translation during the year	5,392	-	(19,147)	(13,755)
Balances as of December 31, 2019				
Goodwill	1,583,576	874,198	1,439,678	3,897,452
Accumulated impairments losses	(531,930)	(343,054)	(452,441)	(1,327,425)
	<u>\$ 1,051,646</u>	<u>531,144</u>	<u>987,237</u>	<u>2,570,027</u>



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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
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**Intangible assets:**

	Tradenames
<b>Indefinite life assets not subject to amortization:</b>	
Balance as of December 31, 2017	\$ 644,208
Intangible assets acquired during the year	91,782
Currency translation during the year	(28,610)
Balance as of December 31, 2018	707,380
Intangible assets acquired during the year <sup>(1)</sup>	(874)
Currency translation during the year	(3,774)
Balance as of December 31, 2019	\$ 702,732

<sup>(1)</sup> Includes adjustments on previously acquired intangible assets.

	Customer relationships	Patents	Other	Total
<b>Intangible assets subject to amortization:</b>				
Balances as of December 31, 2017	\$ 234,835	7,061	5,663	247,559
Intangible assets acquired during the year	47,361	-	7	47,368
Amortization during the year	(28,389)	(2,272)	(84)	(30,745)
Currency translation during the year	(9,179)	(294)	(279)	(9,752)
Balances as of December 31, 2018	244,628	4,495	5,307	254,430
Intangible assets acquired during the year	2,092	-	-	2,092
Amortization during the year	(25,527)	(2,156)	70	(27,613)
Currency translation during the year	(2,752)	(111)	101	(2,762)
Balances as of December 31, 2019	\$ 218,441	2,228	5,478	226,147

December 31, 2019					
	Cost	Acquisitions	Currency translation	Accumulated amortization	Net Value
Customer Relationships	\$ 651,014	2,092	(7,900)	426,765	218,441
Patents	254,483	-	(5,383)	246,872	2,228
Other	6,534	-	97	1,153	5,478
Total	\$ 912,031	2,092	(13,186)	674,790	226,147

December 31, 2018					
	Cost	Acquisitions	Currency translation	Accumulated amortization	Net Value
Customer Relationships	\$ 625,263	47,361	(21,610)	406,386	244,628
Patents	266,969	-	(12,486)	249,988	4,495
Other	6,825	7	(298)	1,227	5,307
Total	\$ 899,057	47,368	(34,394)	657,601	254,430

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
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	Years Ended December 31,		
	2019	2018	2017
Amortization expense	\$ 27,613	30,745	34,279

Estimated amortization expense for the years ending December 31 are as follows:

2020	\$ 27,847
2021	27,846
2022	25,866
2023	24,234
2024	23,511

**(8)****Property, Plant and Equipment**

Following is a summary of property, plant and equipment:

	December 31, 2019	December 31, 2018
Land	\$ 469,837	407,780
Buildings and improvements	1,790,781	1,584,240
Machinery and equipment	5,602,474	5,334,060
Furniture and fixtures	163,017	230,644
Leasehold improvements	103,755	94,683
Construction in progress	366,144	575,667
	8,496,008	8,227,074
Less accumulated depreciation and amortization	3,797,091	3,527,172
Net property, plant and equipment	\$ 4,698,917	4,699,902

Additions to property, plant and equipment included capitalized interest of \$ 7,214, \$10,684 and \$8,543 in 2019, 2018 and 2017, respectively. Depreciation expense was \$544,733, \$487,411 and \$408,646 for 2019, 2018 and 2017, respectively. Included in property, plant and equipment are finance leases with a cost of \$35,271 and \$7,106 and accumulated depreciation of \$5,664 and \$2,333 as of December 31, 2019 and 2018, respectively.

**(9)****Long-Term Debt***Senior Credit Facility*

On October 18, 2019, the Company amended and restated its \$1,800,000 senior credit facility, extending the maturity from March 26, 2022 to October 18, 2024 (as amended and restated, the "Senior Credit Facility"). The Senior Credit Facility marginally reduced the commitment fee and modified certain negative covenants to provide the Company with additional flexibility, including flexibility to make acquisitions and incur additional indebtedness. The amendment also renewed the Company's option to extend the maturity of the Senior Credit Facility up to two times for an additional one-year period each.

At the Company's election, revolving loans under the Senior Credit Facility bear interest at annual rates equal to either (a) LIBOR for 1, 2, 3 or 6 month periods, as selected by the Company, plus an applicable margin ranging between 1.00% and 1.75% (1.125% as of December 31, 2019), or (b) the higher of the Wells Fargo Bank, National Association prime rate, the Federal Funds rate plus 0.5%, or the Eurocurrency Rate (as defined in the Senior Credit Facility) rate plus 1.0%, plus an applicable margin ranging between 0.00% and 0.75% (0.125% as of December 31, 2019). The Company also pays a commitment fee to the lenders under the Senior Credit Facility on the average amount by which the aggregate commitments of the lenders exceed utilization of

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the Senior Credit Facility ranging from 0.09% to 0.20% per annum (0.11% as of December 31, 2019). The applicable margins and the commitment fee are determined based on whichever of the Company's Consolidated Net Leverage Ratio or its senior unsecured debt rating (or if not available, corporate family rating) results in the lower applicable margins and commitment fee (with applicable margins and the commitment fee increasing as that ratio increases or those ratings decline, as applicable).

The obligations of the Company and its subsidiaries in respect of the Senior Credit Facility are unsecured.

The Senior Credit Facility includes certain affirmative and negative covenants that impose restrictions on the Company's financial and business operations, including limitations on liens, subsidiary indebtedness, fundamental changes, asset dispositions, dividends and other similar restricted payments, transactions with affiliates, future negative pledges, and changes in the nature of the Company's business. The Company is also required to maintain a Consolidated Interest Coverage Ratio of at least 3.0 to 1.0 and a Consolidated Net Leverage Ratio of no more than 3.75 to 1.0, each as of the last day of any fiscal quarter. The limitations contain customary exceptions or, in certain cases, do not apply as long as the Company is in compliance with the financial ratio requirements and is not otherwise in default. However, at the Company's election upon the occurrence of certain material acquisitions, a step up of the maximum permitted Consolidated Net Leverage Ratio to 4.00 to 1.00 for the four (4) fiscal quarter period of the Company commencing with the fiscal quarter during which said acquisition(s) closes.

The Senior Credit Facility also contains customary representations and warranties and events of default, subject to customary grace periods.

In 2019, the Company paid financing costs of \$2,264 in connection with the amendment and restatement of its Senior Credit Facility. These costs were deferred and, along with previously unamortized costs of \$3,405 are being amortized over the term of the Senior Credit Facility.

As of December 31, 2019, amounts utilized under the Senior Credit Facility included \$16,803 of borrowings and \$22,787 of standby letters of credit related to various insurance contracts and foreign vendor commitments. The outstanding borrowings of \$693,946 under the Company's U.S. and European commercial paper programs as of December 31, 2019 reduce the availability of the Senior Credit Facility. Including commercial paper borrowings, the Company has utilized \$733,536 under the Senior Credit Facility resulting in a total of \$1,066,464 available as of December 31, 2019.

*Commercial Paper*

On February 28, 2014 and July 31, 2015, the Company established programs for the issuance of unsecured commercial paper in the United States and Eurozone capital markets, respectively. Commercial paper issued under the U.S. and European programs will have maturities ranging up to 397 and 183 days, respectively. None of the commercial paper notes may be voluntarily prepaid or redeemed by the Company and all rank pari passu with all of the Company's other unsecured and unsubordinated indebtedness. To the extent that the Company issues European commercial paper notes through a subsidiary of the Company, the notes will be fully and unconditionally guaranteed by the Company.

The Company uses its Senior Credit Facility as a liquidity backstop for its commercial paper programs. Accordingly, the total amount outstanding under all of the Company's commercial paper programs may not exceed \$1,800,000 (less any amounts drawn on the Senior Credit Facility) at any time.

The proceeds from the issuance of commercial paper notes will be available for general corporate purposes. As of December 31, 2019, there was \$317,000 outstanding under the U.S. commercial paper program, and the euro equivalent of \$376,946 under the European program. The weighted-average interest rate and maturity period for the U.S. program were 2.03% and 21 days, respectively. The weighted-average interest rate and maturity period for the European program were (0.24)% and 24.5 days, respectively.

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*Senior Notes*

On September 4, 2019, Mohawk Finance completed the issuance and sale of €300,000 aggregate principal amount of its Floating Rate Notes due September 4, 2021 ("2021 Floating Rate Notes"). The 2021 Floating Rate Notes are senior unsecured obligations of Mohawk Finance and rank pari passu with all of Mohawk Finance's other existing and future senior unsecured indebtedness. The 2021 Floating Rate Notes are fully, unconditionally and irrevocably guaranteed by the Company on a senior unsecured basis. These notes bear interest at a rate per annum, reset quarterly, equal to three-month EURIBOR plus 0.2% (but in no event shall the interest rate be less than zero). Interest on the 2021 Floating Rate Notes is payable quarterly on December 4, March 4, June 4, and September 4 of each year. Mohawk Finance received an issuance premium of €744 and paid financing cost of \$754 in connection with the 2021 Floating Rate Notes. The issuance premium and financing costs have been deferred and are being amortized over the term of the 2021 Floating Rate Notes.

On May 18, 2018, Mohawk Finance completed the issuance and sale of €300,000 aggregate principal amount of its Floating Rate Notes due May 18, 2020 ("2020 Floating Rate Notes"). The 2020 Floating Rate Notes are senior unsecured obligations of Mohawk Finance and rank pari passu with all of Mohawk Finance's other existing and future senior unsecured indebtedness. The 2020 Floating Rate Notes are fully, unconditionally and irrevocably guaranteed by the Company on a senior unsecured basis. These notes bear interest at a rate per annum, reset quarterly, equal to three-month EURIBOR plus 0.3% (but in no event shall the interest rate be less than zero). Interest on the 2020 Floating Rate Notes is payable quarterly on August 18, November 18, February 18, and May 18 of each year. Mohawk Finance paid financing costs of \$890 in connection with the 2020 Floating Rate Notes. These costs were deferred and are being amortized over the term of the 2020 Floating Rate Notes.

On September 11, 2017, Mohawk Finance completed the issuance and sale of €300,000 aggregate principal amount of its Floating Rate Notes due September 11, 2019 ("2019 Floating Rate Notes"). The 2019 Floating Rate Notes are senior unsecured obligations of Mohawk Finance and ranked pari passu with all of Mohawk Finance's other existing and future senior unsecured indebtedness. The 2019 Floating Rate Notes were fully, unconditionally and irrevocably guaranteed by the Company on a senior unsecured basis. These notes bore interest at a rate per annum, reset quarterly, equal to three-month EURIBOR plus 0.3% (but in no event would the interest rate be less than zero). Interest on the 2019 Floating Rate Notes was payable quarterly on September 11, December 11, March 11, and June 11 of each year. Mohawk Finance paid financing costs of \$911 in connection with the 2019 Floating Rate Notes. These costs were deferred and amortized over the term of the 2019 Floating Rate Notes. On September 11, 2019, the Company paid the remaining €300,000 outstanding principal of the 2019 Floating Rate Notes utilizing cash on hand and borrowings under its European commercial paper program.

On June 9, 2015, the Company issued €500,000 aggregate principal amount of 2.00% Senior Notes ("2.00% Senior Notes") due January 14, 2022. The 2.00% Senior Notes are senior unsecured obligations of the Company and rank pari passu with all of the Company's existing and future unsecured indebtedness. Interest on the 2.00% Senior Notes is payable annually in cash on January 14 of each year, commencing on January 14, 2016. The Company paid financing costs of \$4,218 in connection with the 2.00% Senior Notes. These costs were deferred and are being amortized over the term of the 2.00% Senior Notes.

On January 31, 2013, the Company issued \$600,000 aggregate principal amount of 3.85% Senior Notes ("3.85% Senior Notes") due February 1, 2023. The 3.85% Senior Notes are senior unsecured obligations of the Company and rank pari passu with all of the Company's existing and future unsecured indebtedness. Interest on the 3.85% Senior Notes is payable semi-annually in cash on February 1 and August 1 of each year. The Company paid financing costs of \$6,000 in connection with the 3.85% Senior Notes. These costs were deferred and are being amortized over the term of the 3.85% Senior Notes.

As defined in the related agreements, the Company's senior notes contain covenants, representations and warranties and events of default, subject to exceptions, and restrictions on the Company's financial and business operations, including limitations on liens, restrictions on entering into sale and leaseback transactions, fundamental changes, and a provision allowing the holder of the notes to require repayment upon a change of control triggering event.

*Accounts Receivable Securitization*

On December 19, 2012, the Company entered into a three-year on-balance sheet trade accounts receivable securitization agreement (the "Securitization Facility"). On September 11, 2014, the Company made certain modifications to its Securitization Facility, which modifications, among other things, increased the aggregate borrowings available under the facility from \$300,000 to \$500,000 and decreased the interest margins on certain borrowings. Amounts borrowed under the Securitization Facility bore

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interest at LIBOR plus an applicable margin of

0.70% per annum and the borrower paid a commitment fee at a per annum rate of 0.30% on the unused amount of each lender's commitment. On December 10, 2015, the Company extended the termination date to December 19, 2016, and on December 13, 2016, the Company extended the termination date to December 19, 2017. The Company paid financing costs of \$250 in connection with the second extension. These costs were deferred and amortized over the term of the Securitization Facility. The Securitization Facility expired in accordance with its terms on December 19, 2017.

The fair values and carrying values of the Company's debt instruments are detailed as follows:

	At December 31, 2019		At December 31, 2018	
	Fair Value	Carrying Value	Fair Value	Carrying Value
3.85% senior notes, payable February 1, 2023; interest payable semiannually	\$ 627,144	600,000	599,904	600,000
2.00% senior notes, payable January 14, 2022; interest payable annually	580,235	560,099	587,487	572,148
Floating Rate Notes, payable May 18, 2020, interest payable quarterly	336,066	336,059	343,004	343,289
Floating Rate Notes, payable September 11, 2019, interest payable quarterly	-	-	343,560	343,289
Floating rate notes, payable September 4, 2021, interest payable quarterly	335,965	336,059	-	-
U.S. commercial paper	317,000	317,000	632,668	632,668
European commercial paper	376,946	376,946	707,175	707,175
Five-year senior unsecured credit facility, due October 18, 2024	16,803	16,803	57,896	57,896
Finance leases and other	30,049	30,049	6,664	6,664
Unamortized debt issuance costs	(3,129)	(3,129)	(5,155)	(5,155)
<b>Total debt</b>	<b>2,617,079</b>	<b>2,569,886</b>	<b>3,273,203</b>	<b>3,257,974</b>
Less current portion of long-term debt and commercial paper	1,051,498	1,051,498	1,742,373	1,742,373
<b>Long-term debt, less current portion</b>	<b>\$ 1,565,581</b>	<b>1,518,388</b>	<b>1,530,830</b>	<b>1,515,601</b>

The fair values of the Company's debt instruments were estimated using market observable inputs, including quoted prices in active markets, market indices and interest rate measurements. Within the hierarchy of fair value measurements, these are Level 2 fair values.

The aggregate maturities of total debt as of December 31, 2019 are as follows<sup>(1)</sup>:

2020	\$ 1,051,643
2021	340,555
2022	564,339
2023	603,770
2024	2,635
Thereafter	10,073
	<b>\$ 2,573,015</b>

<sup>(1)</sup> Debt maturity table excludes deferred loan costs.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
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**(10)****Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses are as follows:

	December 31, 2019	December 31, 2018
Outstanding checks in excess of cash	\$ 9,924	14,624
Accounts payable, trade	824,956	811,879
Accrued expenses	461,035	430,431
Product warranties	49,184	47,511
Accrued interest	21,050	21,908
Accrued compensation and benefits	192,991	197,513
Total accounts payable and accrued expenses	\$ 1,559,140	1,523,866

**(11)****Leases**

Effective January 1, 2019 the Company adopted ASC 842, which requires recognition of right of use (“ROU”) assets and lease liabilities on the balance sheet, based on the present value of the future minimum rental payments for existing operating leases. The Company adopted the provisions of ASC 842 on January 1, 2019 using a modified retrospective approach through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption in line with the new transition method allowed under ASU 2018-11. ASC 842 provides a number of optional practical expedients in transition. The Company elected the “package of practical expedients” which permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company did not elect the use-of-hindsight and elected the practical expedient pertaining to land easements. The new standard also provides practical expedients for an entity’s ongoing accounting for leases. The Company elected the short-term lease exemption for all leases that qualify, meaning the Company will not recognize ROU assets or lease liabilities for leases with terms shorter than twelve months. The Company also elected the practical expedient to not separate lease and non-lease components for a majority of its asset classes, including real estate and most equipment.

The Company measures the ROU assets and liabilities based on the present value of the future minimum lease payments over the lease term at the commencement date. Minimum lease payments include the fixed lease and non-lease components of the agreement, as well as any variable rent payments that depend on an index, initially measured using the index at the lease commencement date. The ROU assets are adjusted for any initial direct costs incurred less any lease incentives received, in addition to payments made on or before the commencement date of the lease. The Company recognizes lease expense for leases on a straight-line basis over the lease term.

As the implicit rate is not readily determinable for most of the Company’s lease agreements, the Company uses an estimated incremental borrowing rate to determine the initial present value of lease payments. These discount rates for leases are calculated using the Company’s credit spread adjusted for current market factors and foreign currency rates. The Company also made a policy election to determine its incremental borrowing rate, at the initial application date, using the total lease term and the total minimum rental payments, as the Company believes this rate is more indicative of the implied financing cost.

The Company determines if a contract is or contains a lease at inception. The Company has operating and finance leases for service centers, warehouses, showrooms, and machinery and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Company enters into lease contracts ranging from 1 to 60 years with a majority of the Company’s lease terms ranging from 1 to 8 years.

Some leases include one or more options to renew, with renewal terms that can extend the lease term from 3 to 10 years or more. The exercise of these lease renewal options is at the Company’s sole discretion. An insignificant number of the Company’s leases include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

Certain of the Company’s leases include rental payments that will adjust periodically for inflation or certain adjustments based on step increases. An insignificant number of the Company’s leases contain residual value guarantees and none of the

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Company's agreements contain material restrictive covenants. Variable rent expenses consist primarily of maintenance, property taxes and charges based on usage.

The Company rents or subleases certain real estate to third parties. The Company's sublease portfolio consists mainly of operating leases.

The components of lease costs are as follows:

	Twelve Months Ended December 31, 2019		
	Cost of Goods Sold	Selling, General and Administrative	Total
<b>Operating lease costs</b>			
Fixed	\$ 30,002	97,988	127,990
Short-term	9,725	13,933	23,658
Variable	8,123	29,852	37,975
Sub-leases	(311)	(537)	(848)
	<u>\$ 47,539</u>	<u>141,236</u>	<u>188,775</u>
	Twelve Months Ended December 31, 2019		
	Depreciation and Amortization	Interest	Total
<b>Finance lease costs</b>			
Amortization of leased assets	\$ 4,015	-	4,015
Interest on lease liabilities	-	491	491
	<u>\$ 4,015</u>	<u>491</u>	<u>4,506</u>
Net lease costs			<u>193,281</u>

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

Supplemental balance sheet information related to leases is as follows:

	<u>Classification</u>	<u>At December 31, 2019</u>
<b>Assets</b>		
Operating Leases		
Right of use operating lease assets	Right of use operating lease assets	\$ 323,003
Finance Leases		
Property, plant and equipment, gross	Property, plant and equipment	35,271
Accumulated depreciation	Accumulated depreciation	(5,664)
Property, plant and equipment, net	Property, plant and equipment, net	29,607
Total lease assets		<u>\$ 352,610</u>
<b>Liabilities</b>		
Operating Leases		
Other current	Current operating lease liabilities	\$ 101,945
Non-current	Non-current operating lease liabilities	228,155
Total operating liabilities		330,100
Finance Leases		
Short-term debt	Short-term debt and current portion of long-term debt	4,835
Long-term debt	Long-term debt, less current portion	25,214
Total finance liabilities		30,049
Total lease liabilities		<u>\$ 360,149</u>



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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements--(Continued)**

Maturities of lease liabilities are as follows:

**As of December 31, 2019**

<b>Year ending December 31,</b>	<b>Finance Leases</b>	<b>Operating Leases</b>	<b>Total</b>
2020	\$ 5,355	119,745	125,100
2021	4,955	94,169	99,124
2022	4,612	66,090	70,702
2023	4,077	36,965	41,042
2024	2,894	20,118	23,012
Thereafter	10,884	26,105	36,989
Total lease payments	32,777	363,192	395,969
Less imputed interest	2,728	33,092	
Present value, Total	\$ 30,049	330,100	

**As of December 31, 2018**

<b>Year ending December 31,</b>	<b>Finance Leases</b>	<b>Operating Leases</b>	<b>Total</b>
2019	\$ 1,494	116,110	117,604
2020	1,195	93,724	94,919
2021	766	66,129	66,895
2022	562	42,247	42,809
2023	555	22,207	22,762
Thereafter	3,215	26,097	29,312
Total payments	7,787	366,514	374,301
Less amount representing interest	1,123		
Present value of capitalized lease payments	\$ 6,664		

The Company had approximately \$ 13,932 of leases that commenced after December 31, 2019 that created rights and obligations to the Company. These leases are not included in the above maturity schedule.

Lease term and discount rate are as follows:

	<b><u>At December 31, 2019</u></b>
<b>Weighted Average Remaining Lease Term</b>	
Operating Leases	4.27
Finance Leases	8.44
<b>Weighted Average Discount Rate</b>	
Operating Leases	3.3%
Finance Leases	1.4%

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

Supplemental cash flow information related to leases was as follows:

	<u>Twelve Months Ended</u> <u>December 31,</u> <u>2019</u>
Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 127,213
Operating cash flows from finance leases	349
Financing cash flows from finance leases	3,975
Right-of-use assets obtained in exchange for lease obligations:	
Operating Leases	133,959
Finance Leases	20,464
Amortization:	
Amortization of Right of use operating lease assets <sup>(1)</sup>	109,884

<sup>(1)</sup> Amortization of Right of use operating lease assets during the period is reflected in Other assets and prepaid expenses on the Condensed Consolidated Statements of Cash Flows.

Rental expense under fixed operating leases was \$127,990, \$143,513 and \$145,176 in 2019, 2018 and 2017, respectively.

**(12)**

**Stock-Based Compensation**

The Company recognizes compensation expense for all share-based payments granted for the years ended December 31, 2019, 2018 and 2017 based on the grant-date fair value estimated in accordance with the provisions of ASC 718-10. Compensation expense is recognized on a straight-line basis over the options' or other awards' estimated lives for fixed awards with ratable vesting provisions.

Under the Company's 2012 Incentive Plan ("2012 Plan"), the Company reserved up to a maximum of 3,200 shares of common stock for issuance upon the grant or exercise of stock options, restricted stock, restricted stock units ("RSUs") and other types of awards, to directors and key employees through December 31, 2022. Option awards are granted with an exercise price equal to the market price of the Company's common stock on the date of the grant and generally vest between three and five years with a 10-year contractual term. The grant date fair value of restricted stock and RSUs is equal to the market price of the Company's common stock on the date of the grant and generally vest between three and five years.

On May 19, 2017, the Company's stockholders approved the 2017 Long-Term Incentive Plan ("2017 Plan"), which allows the Company to reserve up to a maximum of 3,000 shares of common stock for issuance upon the grant or exercise of awards under the 2017 Plan. No additional awards may be granted under the 2012 Plan after May 19, 2017.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

*Stock Option Plans*

Additional information relating to the Company's stock option plans follows:

	2019	2018	2017
Options outstanding at beginning of year	63	63	91
Options exercised	-	-	(28)
Options forfeited and expired	-	-	-
Options outstanding at end of year	63	63	63
Options exercisable at end of year	63	63	63
Option prices per share:			
Options exercised during the year	\$ -	-	57.34-66.14
Options forfeited and expired during the year	\$ -	-	-
Options outstanding at end of year	57.34-66.14	57.34-66.14	57.34-66.14
Options exercisable at end of year	57.34-66.14	57.34-66.14	57.34-66.14

A summary of the Company's options under its long-term incentive plans as of December 31, 2019, and changes during the year then ended is presented as follows:

	Shares	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Options outstanding, December 31, 2018	63	\$ 62.86		
Granted	-	-		
Exercised	-	-		
Forfeited and expired	-	-		
Options outstanding, December 31, 2019	63	\$ 62.86	1.8	\$ 4,640
Vested and expected to vest as of December 31, 2019	63	\$ 62.86	1.8	\$ 4,640
Exercisable as of December 31, 2019	63	\$ 62.86	1.8	\$ 4,640

The Company has not granted options since the year ended December 31, 2012. The total intrinsic value of options exercised during the years ended December 31, 2019, 2018, and 2017 was \$ 0, \$0 and \$5,005, respectively. Total compensation expense recognized for the years ended December 31, 2019, 2018 and 2017 was \$0 (\$0, net of tax), \$0 (\$0, net of tax) and \$6 (\$4, net of tax), respectively, which was allocated to selling, general and administrative expenses. The remaining unamortized expense for non-vested compensation expense as of December 31, 2019 was \$0.

The following table summarizes information about the Company's stock options outstanding as of December 31, 2019:

	Outstanding			Exercisable	
Exercise price range	Number of shares	Average life	Average price	Number of shares	Average price
\$57.34-\$57.34	23	1.15	57.34	23	57.34
\$66.14-\$66.14	40	2.14	66.14	40	66.14
Total	63	1.77	\$ 62.86	63	\$ 62.86

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

*Restricted Stock Plans*

A summary of the Company's RSUs under the Company's long-term incentive plans as of December 31, 2019, and changes during the year then ended is presented as follows:

	Shares	Weighted average grant date fair value	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Restricted Stock Units outstanding, December 31, 2018	446	\$ 166.56		
Granted	187	137.30		
Released	(230)	152.00		
Forfeited	(41)	189.23		
Restricted Stock Units outstanding, December 31, 2019	362	\$ 158.13	1.3	\$ 48,914
Expected to vest as of December 31, 2019	356		1.3	\$ 48,060

The Company recognized stock-based compensation costs related to the issuance of RSUs of \$23,620 (\$17,479, net of taxes), \$31,382 (\$24,436, net of taxes) and \$36,316 (\$22,037, net of taxes) for the years ended December 31, 2019, 2018 and 2017, respectively, which has been allocated to selling, general and administrative expenses. Pre-tax unrecognized compensation expense for unvested RSUs granted to employees, net of estimated forfeitures, was \$20,598 as of December 31, 2019, and will be recognized as expense over a weighted-average period of approximately 1.67 years.

Additional information relating to the Company's RSUs under the Company's long-term incentive plans are as follows:

	2019	2018	2017
Restricted Stock Units outstanding, January 1	446	555	695
Granted	187	136	154
Released	(230)	(235)	(284)
Forfeited	(41)	(10)	(10)
Restricted Stock Units outstanding, December 31	362	446	555
Expected to vest as of December 31	356	440	546

During 2019, 2018 and 2017, a total of 1 share was awarded each year to certain non-employee directors in lieu of cash for their annual retainers.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

**(13)****Other Expense (Income)**

Following is a summary of other expense (income):

	2019	2018	2017
Foreign currency losses	(7,190)	9,613	8,395
Release of indemnification asset	(304)	4,606	4,459
Impairment of net investment in a manufacturer and distributor of Ceramic tile in China <sup>(1)</sup>	59,906	-	-
All other, net	(16,005)	(6,921)	(7,649)
Total other expense (income)	\$ 36,407	7,298	5,205

<sup>(1)</sup> During 2019, the Company determined that its net investment in a manufacturer and distributor of ceramic tile in China was impaired and therefore recorded a net impairment charge of \$59,906.

**(14)****Income Taxes**

Following is a summary of earnings before income taxes for United States and foreign operations:

	2019	2018	2017
United States	\$ 163,764	387,564	754,562
Foreign	585,781	661,637	563,295
Earnings before income taxes	\$ 749,545	1,049,201	1,317,857

Income tax expense (benefit) for the years ended December 31, 2019, 2018 and 2017 consists of the following:

	2019	2018	2017
Current income taxes:			
U.S. federal	\$ 19,936	22,700	327,697
State and local	12,659	14,521	17,811
Foreign	80,221	58,669	73,248
Total current	112,816	95,890	418,756
Deferred income taxes:			
U.S. federal	11,993	54,983	(17,419)
State and local	15,371	19,076	(3,046)
Foreign	(135,206)	14,397	(55,126)
Total deferred	(107,842)	88,456	(75,591)
Total	\$ 4,974	184,346	343,165

The geographic dispersion of earnings and losses contributes to the annual changes in the Company's effective tax rates. Approximately 22% of the Company's current year earnings before income taxes was generated in the United States at a combined federal and state effective tax rate that is higher than the Company's overall effective tax rate. The Company is also subject to taxation in other jurisdictions where it has operations, including Australia, Belgium, Brazil, Bulgaria, France, Ireland, Italy, Luxembourg, Malaysia, Mexico, the Netherlands, New Zealand, Poland, Russia, Spain, the U.K. and the Ukraine. The effective tax rates that the Company accrues in these jurisdictions vary widely, but they are generally lower than the Company's overall effective tax rate. The Company's domestic effective tax rates for the years ended December 31, 2019, 2018 and 2017 were 36.6%, 28.7%, and 43.1%, respectively, and its non-U.S. effective tax rates for the years ended December 31, 2019, 2018 and 2017 were (9.4)%, 11.0%, and 3.2%, respectively. The difference in rates applicable in foreign jurisdictions results from a number of factors, including lower statutory rates, historical loss carry-forwards, financing arrangements, and other factors. The Company's effective tax rate has been and will continue to be impacted by the geographical dispersion of the Company's earnings and losses. To the extent that domestic earnings increase while the foreign earnings remain flat or decrease, or increase at a lower rate, the Company's effective tax rate will increase.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

Income tax expense (benefit) attributable to earnings before income taxes differs from the amounts computed by applying the U.S. statutory federal income tax rate to earnings before income taxes as follows:

	2019	2018	2017
Income taxes at statutory rate	\$ 157,404	220,332	461,250
State and local income taxes, net of federal income tax benefit	22,185	22,315	10,133
Foreign income taxes <sup>(a)</sup>	(17,276)	(39,915)	(113,520)
Change in valuation allowance	(21,975)	2,472	10,008
European Restructuring <sup>(b)</sup>	(136,194)	-	-
Manufacturing deduction	-	-	(11,911)
2017 revaluation of deferred tax assets and liabilities <sup>(c)</sup>	-	-	(150,546)
Transition Tax	-	28,201	105,165
Transition tax planning initiatives	-	(18,706)	14,825
Tax contingencies and audit settlements, net	6,686	(31,874)	23,097
Other, net	(5,856)	1,521	(5,336)
	<u>\$ 4,974</u>	<u>184,346</u>	<u>343,165</u>

(a) Foreign income taxes include statutory rate differences, financing arrangements, withholding taxes, local income taxes, notional deductions, and other miscellaneous items. The significant decrease in foreign income taxes for 2018 is primarily due to the impact of the U.S. statutory rate reduction from 35% to 21% as a result of the Tax Cuts and Jobs Act ("TCJA") discussed below.

(b) The Company implemented select operational, administrative and financial restructurings that centralized certain business processes and intangible assets in various European jurisdictions into a new entity. The European Restructuring resulted in a current income tax liability of \$148,240, calculated in part by measuring the fair value of intangible assets transferred. The Company offset the income tax liability with the utilization of \$148,240 of deferred tax assets from accumulated net operating loss carry forwards. The European Restructuring also resulted in the Company recording a \$136,194 deferred tax asset, and a corresponding deferred tax benefit, related to the tax basis of the intangible assets in the new entity.

(c) 2017 revaluation of deferred tax assets and liabilities includes \$106,107 related to the TCJA and \$44,439 related to Belgium tax reform.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2019 and 2018 are presented below:

	2019	2018
Deferred tax assets:		
Accounts receivable	\$ 7,063	8,312
Inventories	50,585	47,212
Employee benefits	36,068	37,335
Accrued expenses and other	67,638	71,621
Deductible state tax and interest benefit	3,665	2,904
Intangibles	146,953	16,134
Lease liabilities	86,717	-
Federal, foreign and state net operating losses and credits	376,375	575,625
Gross deferred tax assets	775,064	759,143
Valuation allowance	(232,196)	(347,786)
Net deferred tax assets	542,868	411,357
Deferred tax liabilities:		
Inventories	(12,885)	(18,332)
Plant and equipment	(510,952)	(477,734)
Intangibles	(182,424)	(181,436)
Right of use assets	(83,271)	-
Other liabilities	(24,220)	(96,134)
Gross deferred tax liabilities	(813,752)	(773,636)
Net deferred tax liability	\$ (270,884)	(362,279)

The Company evaluates its ability to realize the tax benefits associated with deferred tax assets by analyzing its forecasted taxable income using both historic and projected future operating results, the reversal of existing temporary differences, taxable income in prior carry-back years (if permitted) and the availability of tax planning strategies. The valuation allowance as of December 31, 2019, and 2018 is \$232,196 and \$347,786, respectively. The valuation allowance as of December 31, 2019 relates to the net deferred tax assets of certain of the Company's foreign subsidiaries as well as certain state net operating losses and tax credits. The total change in the 2019 valuation allowance was a decrease of \$115,590 which includes \$148,240 related to the tax liability resulting from the European Restructuring, with remaining \$32,650 related to tax rate changes, foreign currency translation, and other activities. The total change in the 2018 valuation allowance was a decrease of \$15,177, which includes \$15,357 related to foreign currency translation.

Management believes it is more likely than not that the Company will realize the benefits of its deferred tax assets, net of valuation allowances, based upon the expected reversal of deferred tax liabilities and the level of historic and forecasted taxable income over periods in which the deferred tax assets are deductible.

As of December 31, 2019, the Company has state net operating loss carry forwards and state tax credits with potential tax benefits of \$51,175, net of federal income tax benefit; these carry forwards expire over various periods based on taxing jurisdiction. A valuation allowance totaling \$31,349 has been recorded against these state deferred tax assets as of December 31, 2019. In addition, as of December 31, 2019, the Company has credits and net operating loss carry forwards in various foreign jurisdictions with potential tax benefits of \$1,549,745. A valuation allowance totaling \$200,847 has been recorded against these deferred tax assets as of December 31, 2019. In 2018 the Company redeemed hybrid instruments in response to changes in global tax regimes. The changes were triggered by the EU's Base Erosion and Profit Shifting "BEPS" and Anti-Tax Avoidance Directives "ATAD" I and II initiatives. As a result of the redemption, the Company recorded an ASC 740-10 liability of \$1,224,545 for the full tax effected loss in the *Tax Uncertainties* section below. This ASC 740-10-45 liability is recorded as a reduction to the related deferred tax asset in the financial statements as a result of management's determination that it is not more likely than not that the benefit will be realized.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

Due to the passage of the Tax Cuts and Jobs Act ("TCJA") on December 22, 2017, the Company was required to recognize U.S. federal and state taxes on the higher of its accumulated earnings as of November 2, 2017, or December 31, 2017. The TCJA imposed U.S. tax on all post-1986 foreign unrepatriated earnings accumulated through December 31, 2017. Accordingly, as of December 31, 2018, the Company recognized \$133,366 of income tax expense on its foreign earnings. As of December 31, 2018, the Company has recognized net income tax expense on earnings of approximately \$1,936,000. As of December 31, 2019, the Company has accrued an additional \$6,000 of income tax expense on additional foreign earnings of approximately \$177,000. Should these earnings be distributed in the form of dividends in the future, the Company might be subject to withholding taxes (possibly offset by U.S. foreign tax credits) in various foreign jurisdictions, but the Company would not expect incremental U.S. federal or state taxes to be accrued on these previously taxed earnings. Despite the new territorial tax regime created by the TCJA, Company continues to assert that earnings of its foreign subsidiaries are permanently reinvested.

*Tax Uncertainties*

In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing jurisdictions. Accordingly, the Company accrues liabilities when it believes that it is not more likely than not that it will realize the benefits of tax positions that it has taken in its tax returns or for the amount of any tax benefit that exceeds the cumulative probability threshold in accordance with ASC 740-10. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits in income tax expense (benefit). Differences between the estimated and actual amounts determined upon ultimate resolution, individually or in the aggregate, are not expected to have a material adverse effect on the Company's consolidated financial position but could possibly be material to the Company's consolidated results of operations or cash flow in any given quarter or annual period.

As of December 31, 2019, the Company's gross amount of unrecognized tax benefits is \$1,260,970, excluding interest and penalties. If the Company were to prevail on all uncertain tax positions, \$29,420 of the unrecognized tax benefits would affect the Company's effective tax rate, exclusive of any benefits related to interest and penalties.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2019	2018
Balance as of January 1	\$ 1,330,713	65,631
Additions based on tax positions related to the current year <sup>(a)</sup>	2,302	1,304,447
Additions for tax positions of acquired companies	2,094	1,413
Additions for tax positions of prior years	4,744	5,098
Transition tax planning initiatives	-	(27,470)
Reductions resulting from the lapse of the statute of limitations	(2,729)	(8,110)
Reductions due to Luxembourg tax rate change	(46,841)	-
Settlements with taxing authorities	(1,929)	(9,773)
Effects of foreign currency translation	(27,384)	(523)
Balance as of December 31	<u>\$ 1,260,970</u>	<u>1,330,713</u>

(a) 2018 includes tax effected loss of \$1,298,737 on Luxembourg hybrid instruments redemptions. The tax effected loss was adjusted for tax rate and foreign currency translation changes in 2019, resulting in an updated balance of \$1,224,545 as of December 31, 2019. This \$1,224,545 of unrecognized benefit is presented as a reduction to the related deferred tax asset in the balance sheet.

The Company will continue to recognize interest and penalties related to unrecognized tax benefits as a component of its income tax provision. As of December 31, 2019 and 2018, the Company has \$12,555 and \$7,184, respectively, accrued for the payment of interest and penalties, excluding the federal tax benefit of interest deductions where applicable. During the years ended December 31, 2019, 2018 and 2017, the Company accrued interest and penalties through the consolidated statements of operations of \$5,368, \$(1,085) and \$165, respectively.

The Company believes that its unrecognized tax benefits could decrease by \$6,772 within the next twelve months. The Internal Revenue Service has completed its audit of the Company's 2014 & 2015 tax years, therefore Federal income tax matters



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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

related to years prior to 2016 has been effectively settled. Various other state and foreign income tax returns are open to examination for various years.

*Belgian Tax Matter*

Between 2012 and 2014, the Company received assessments from the Belgian tax authority for the calendar years 2005 through 2010 in the amounts of €46,135, €38,817, €39,635, €30,131, €35,567 and €43,117 respectively, including penalties, but excluding interest. The Belgian tax authority denied the Company's formal protests against these assessments and the Company brought all six years before the Court of First Appeal in Bruges. The Court of First Appeal in Bruges ruled in favor of the Company on January 27, 2016, with respect to the calendar years ending December 31, 2005 and December 31, 2009; and on June 13, 2018, the Court of First Appeal in Bruges ruled in favor of the Company with respect to the calendar years ending December 31, 2006, December 31, 2007, December 31, 2008 and December 31, 2010. The Belgian tax authority has lodged its Notification of Appeal for all six years with the Ghent Court of Appeal. On September 17, 2019, the Company pled its case to the Ghent Court of Special (Tax) Appeals and on October 1, 2019, the Court ruled in favor of the Company, re-confirming the rulings of the Court of First Appeals in Bruges with respect to the calendar years ending December 31, 2005 and December 31, 2009.

In March 2019, the Company received assessments from the Belgian tax authority for tax years 2011 through 2017 in the amount of €40,617, €39,732, €11,358, €23,919, €30,610, €93,145 and €79,933 respectively, including penalties, but excluding interest. The Company intends to file formal protests based on these assessments in a timely manner. The assessments are largely based on the same facts underlying the positive rulings, which the Belgian tax authority may appeal.

In January 2020, the Belgian tax authority set aside its tax assessments for the years 2011 through 2017, inclusively. These assessments were still in the administrative phase of the audit. At this time, the Company is uncertain what the Belgian tax authority intends to do with these years, if anything.

The Company continues to disagree with the views of the Belgian tax authority on this matter and will persist in its vigorous defense. Nevertheless, on May 24, 2016, the tax collector representing the Belgian tax authorities imposed a lien on the Company's properties in Wielsbeke (Ooigemstraat and Breestraat), Oostrozebeke (Ingelmunstersteenweg) and Desselgem (Waregemstraat) included in the Flooring ROW segment. The purpose of the lien is to provide security for payment should the Belgian tax authority prevail on its appeal. The lien does not interfere with the Company's operations at these properties.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

**(15)****Commitments and Contingencies**

The Company had approximately \$

22,787 and \$54,591 in standby letters of credit for various insurance contracts and commitments to foreign vendors as of December 31, 2019 and 2018, respectively that expire within two years.

The Company is involved in litigation from time to time in the regular course of its business. Except as noted below and in Note 14, Income Taxes *Belgian Tax Matter*, there are no material legal proceedings pending or known by the Company to be contemplated to which the Company is a party or to which any of its property is subject.

*Perfluorinated Compounds ("PFCs") Litigation*

In September 2016, the Water Works and Sewer Board of the City of Gadsden, Alabama (the "Gadsden Water Board") filed an individual complaint in the Circuit Court of Etowah County, Alabama against certain manufacturers, suppliers, and users of chemicals containing specific PFCs, including the Company. In May 2017, the Water Works and Sewer Board of the Town of Centre, Alabama (the "Centre Water Board") filed a similar complaint in the Circuit Court of Cherokee County, Alabama. The Gadsden Water Board and the Centre Water Board both seek monetary damages and injunctive relief claiming that their water supplies contain excessive amounts of PFCs. Certain defendants, including the Company, filed dispositive motions in each case arguing that the Alabama state courts lack personal jurisdiction over them. These motions were denied. In June and September 2018, certain defendants, including the Company, petitioned the Alabama Supreme Court for Writs of Mandamus directing each lower court to enter an order granting the defendants' dispositive motions on personal jurisdiction grounds. The Alabama Supreme Court denied the petitions on December 20, 2019. Certain defendants, including the Company, filed an Application for Rehearing with the Alabama Supreme Court asking the Court to reconsider its December 2019 decision.

In December 2019, the City of Rome, Georgia ("Rome") filed a complaint in the Superior Court of Floyd County, Georgia that is similar to the Gadsden Water Board and Centre Water Board complaints, again seeking monetary damages and injunctive relief related to PFCs. Also in December 2019, Jarrod Johnson filed a putative class action in the Superior Court of Floyd County, Georgia purporting to represent all water subscribers with the Rome (Georgia) Water and Sewer Division and/or the Floyd County (Georgia) Water Department and seeking to recover, among other things, damages in the form of alleged increased rates and surcharges incurred by ratepayers for the costs associated with eliminating certain PFCs from their drinking water. In January 2020, defendant 3M Company removed the class action to federal court.

The Company denies all liability in these matters and intends to defend them vigorously.

*Putative Securities Class Action*

The Company and certain of its present and former executive officers were named as defendants in a putative shareholder class action lawsuit filed in the United States District Court for the Northern District of Georgia. The complaint alleges that defendants violated the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by making materially false and misleading statements and that the officers are control persons under Section 20(a) of the Securities Exchange Act of 1934. The complaint is filed on behalf of shareholders who purchased shares of the Company's common stock between April 28, 2017 and July 25, 2019. The Company believes the claims are frivolous and intends to defend them vigorously.

*Delaware State Court Action*

The Company and certain of its present and former executive officers were named as defendants in a putative state securities class action lawsuit filed in the Superior Court of the State of Delaware on January 30, 2020. The complaint alleges that defendants violated Sections 11 and 12 of the Securities Act of 1933. The complaint is filed on behalf of shareholders who purchased shares of the Company's common stock in Mohawk Industries Retirement Plan 1 and Mohawk Industries Retirement Plan 2 between April 27, 2017 and July 25, 2019. The Company believes the claims are frivolous and intends to defend them vigorously.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

*General*

The Company believes that adequate provisions for resolution of all contingencies, claims and pending litigation have been made for probable losses that are reasonably estimable. These contingencies are subject to significant uncertainties and we are unable to estimate the amount or range of loss, if any, in excess of amounts accrued. The Company does not believe that the ultimate outcome of these actions will have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations, cash flows or liquidity in a given quarter or year.

The Company is subject to various federal, state, local and foreign environmental health and safety laws and regulations, including those governing air emissions, wastewater discharges, the use, storage, treatment, recycling and disposal of solid and hazardous materials and finished product, and the cleanup of contamination associated therewith. Because of the nature of the Company's business, the Company has incurred, and will continue to incur, costs relating to compliance with such laws and regulations. The Company is involved in various proceedings relating to environmental matters and is currently engaged in environmental investigation, remediation and post-closure care programs at certain sites. The Company has provided accruals for such activities that it has determined to be both probable and reasonably estimable. The Company does not expect that the ultimate liability with respect to such activities will have a material adverse effect on its financial condition but could have a material adverse effect on its results of operations, cash flows or liquidity in a given quarter or year.

**(16)**

**Consolidated Statements of Cash Flows Information**

Supplemental disclosures of cash flow information are as follows:

	2019	2018	2017
Net cash paid (received) during the years for:			
Interest	\$ 45,241	46,186	33,952
Income taxes	\$ 123,974	196,193	373,900
Supplemental schedule of non-cash investing and financing activities:			
Additions to property, plant and equipment	\$ 6,387	(4,672)	30,643
Fair value of net assets acquired in acquisition	\$ 107,290	831,760	369,956
Liabilities assumed in acquisition	(31,053)	(257,515)	(119,157)
	\$ 76,237	574,245	250,799

**(17)**

**Segment Reporting**

The Company has three reporting segments: the Global Ceramic segment, the Flooring NA segment and the Flooring ROW segment. The Global Ceramic segment designs, manufactures, sources and markets a broad line of ceramic tile, porcelain tile, natural stone, quartz, porcelain slab countertops and other products, which it distributes primarily in North America, Europe, South America and Russia through its network of regional distribution centers and Company-operated service centers using company-operated trucks, common carriers or rail transportation. The segment's product lines are sold through Company-operated service centers, independent distributors, home center retailers, tile and flooring retailers and contractors. The Flooring NA segment designs, manufactures, sources and markets its floor covering product lines, including carpets, rugs, carpet pad, hardwood, laminate and resilient (includes sheet vinyl and LVT), which it distributes through its network of regional distribution centers and satellite warehouses using company-operated trucks, common carrier or rail transportation. The segment's product lines are sold through various selling channels, including independent floor covering retailers, distributors, home centers, mass merchandisers, department stores, shop at home, buying groups, commercial contractors and commercial end users. The Flooring ROW segment designs, manufactures, sources, licenses and markets laminate, hardwood flooring, roofing elements, insulation boards, medium-density fiberboard ("MDF"), chipboards, other wood products, sheet vinyl and LVT, which it distributes primarily in Europe, Australia, New Zealand and Russia through various selling channels, which include retailers, independent distributors and home centers.

The accounting policies for each operating segment are consistent with the Company's policies for the consolidated financial statements. Amounts disclosed for each segment are prior to any elimination or consolidation entries. Corporate general

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

and administrative expenses attributable to each segment are estimated and allocated accordingly. Segment performance is evaluated based on operating income. No single customer accounted for more than 10% of net sales for the years ended December 31, 2019, 2018 or 2017.

Segment information is as follows:

	2019	2018	2017
<b>Assets:</b>			
Global Ceramic	\$ 5,419,896	5,194,030	4,838,310
Flooring NA	3,823,654	3,938,639	3,702,137
Flooring ROW	3,925,246	3,666,617	3,245,424
Corporate and intersegment eliminations	217,884	299,837	308,982
<b>Total</b>	<b>\$ 13,386,680</b>	<b>13,099,123</b>	<b>12,094,853</b>

Geographic net sales:

United States	\$ 5,822,593	6,103,789	6,035,200
Europe	2,532,239	2,582,692	2,363,069
Russia	385,395	349,220	326,075
Other	1,230,445	947,933	766,946
<b>Total</b>	<b>\$ 9,970,672</b>	<b>9,983,634</b>	<b>9,491,290</b>

Long-lived assets: <sup>(1)</sup>

United States	\$ 3,391,676	3,485,046	3,339,363
Belgium	1,645,104	1,663,470	1,705,947
Other	2,232,164	2,072,353	1,696,939
<b>Total</b>	<b>\$ 7,268,944</b>	<b>7,220,869</b>	<b>6,742,249</b>

Net sales by product categories:

Ceramic & Stone	\$ 3,686,645	3,621,193	3,485,245
Carpet & Resilient	3,921,769	3,903,698	3,655,902
Laminate & Wood	1,501,077	1,553,032	1,519,417
Other <sup>(2)</sup>	861,181	905,711	830,726
<b>Total</b>	<b>\$ 9,970,672</b>	<b>9,983,634</b>	<b>9,491,290</b>

Net sales:

Global Ceramic	\$ 3,631,142	3,552,856	3,405,100
Flooring NA	3,843,714	4,029,148	4,010,858
Flooring ROW	2,495,816	2,401,630	2,075,452
Intersegment sales	-	-	(120)
<b>Total</b>	<b>\$ 9,970,672</b>	<b>9,983,634</b>	<b>9,491,290</b>

<sup>(1)</sup> Long-lived assets are composed of property, plant and equipment - net, and goodwill.

<sup>(2)</sup> Other includes roofing elements, insulation boards, chipboards and IP contracts.

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

	2019	2018	2017
Operating income:			
Global Ceramic	\$ 340,058	442,898	525,401
Flooring NA	167,385	347,937	540,337
Flooring ROW	359,428	345,801	329,054
Corporate and intersegment eliminations	(39,647)	(41,310)	(40,619)
Total	\$ 827,224	1,095,326	1,354,173
Depreciation and amortization:			
Global Ceramic	\$ 211,679	189,904	161,913
Flooring NA	204,689	184,455	159,980
Flooring ROW	145,417	135,350	114,794
Corporate	14,667	12,056	9,985
Total	\$ 576,452	521,765	446,672
Capital expenditures (excluding acquisitions):			
Global Ceramic	\$ 244,026	281,125	310,650
Flooring NA	148,820	262,676	355,941
Flooring ROW	147,118	232,949	221,763
Corporate	5,498	17,360	17,644
Total	\$ 545,462	794,110	905,998

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**MOHAWK INDUSTRIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements-(Continued)**

**(18)****Quarterly Financial Data (Unaudited)**

The supplemental quarterly financial data are as follows:

	Quarters Ended			
	March 30, 2019	June 29, 2019	September 28, 2019	December 31, 2019
Net sales	\$ 2,442,490	2,584,485	2,519,185	2,424,512
Gross profit	624,927	736,618	691,691	622,807
Net earnings	121,585	202,441	155,518	264,667
Basic earnings per share	1.68	2.80	2.16	3.69
Diluted earnings per share	1.67	2.79	2.15	3.68

	Quarters Ended			
	March 31, 2018	June 30, 2018	September 29, 2018	December 31, 2018
Net sales	\$ 2,412,202	2,577,014	2,545,800	2,448,618
Gross profit	704,692	766,555	720,433	646,390
Net earnings	208,766	196,586	227,013	229,339
Basic earnings per share	2.80	2.64	3.03	3.07
Diluted earnings per share	2.78	2.62	3.02	3.05

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures****Evaluation of Disclosure Controls and Procedures**

Based on an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), which have been designed to provide reasonable assurance that such controls and procedures will meet their objectives, as of the end of the period covered by this report, the Company's Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures were effective at a reasonable assurance level for the period covered by this report.

**Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The Company maintains internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, internal control over financial reporting determined to be effective provides only reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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Under the supervision and with the participation of management, including the Company's Principal Executive Officer and Principal Financial Officer, the Company conducted an evaluation of the effectiveness of the design and operation of the Company's internal control over financial reporting as of December 31, 2019. In conducting this evaluation, the Company used the framework set forth in the report titled "Internal Control - Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of this evaluation, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their audit report which is included herein.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **Limitations on the Effectiveness of Controls**

The Company's management recognizes that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

#### **Item 9B. Other Information**

None.

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### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to information contained in the Company's Proxy Statement for the 2020 Annual Meeting of Stockholders under the following headings: "Election of Directors-Director, Director Nominee and Executive Officer Information," "-Nominees for Director," "-Continuing Directors," "-Contractual Obligations with respect to the Election of Directors," "-Executive Officers," "-Meetings and Committees of the Board of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Audit Committee" and "Corporate Governance." The Company has adopted the Mohawk Industries, Inc. Standards of Conduct and Ethics, which applies to all of its directors, officers and employees. The standards of conduct and ethics are publicly available on the Company's website at <http://www.mohawkind.com> and will be made available in print to any stockholder who requests them without charge. If the Company makes any substantive amendments to the standards of conduct and ethics, or grants any waiver, including any implicit waiver, from a provision of the standards required by regulations of the Commission to apply to the Company's chief executive officer, chief financial officer or chief accounting officer, the Company will disclose the nature of the amendment or waiver on its website. The Company may elect to also disclose the amendment or waiver in a report on Form 8-K filed with the SEC. The Company has adopted the Mohawk Industries, Inc. Board of Directors Corporate Governance Guidelines, which are publicly available on the Company's website and will be made available to any stockholder who requests it.

#### Item 11. Executive Compensation

The information required by this item is incorporated by reference to information contained in the Company's Proxy Statement for the 2020 Annual Meeting of Stockholders under the following headings: "Compensation Discussion and Analysis," "Executive Compensation-Summary Compensation Table," "-Grants of Plan Based Awards," "-Outstanding Equity Awards at Year End," "-Option Exercises and Stock Vested," "-Nonqualified Deferred Compensation," "-Certain Relationships and Related Transactions," "-Compensation Committee Interlocks and Insider Participation," "-Compensation Committee Report" and "Director Compensation."

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to information contained in the Company's Proxy Statement for the 2020 Annual Meeting of Stockholders under the following headings: "Executive Compensation-Equity Compensation Plan Information," and "-Principal Stockholders of the Company."

#### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to information contained in the Company's Proxy Statement for the 2020 Annual Meeting of Stockholders under the following heading: "Election of Directors-Meetings and Committees of the Board of Directors," and "Executive Compensation-Certain Relationships and Related Transactions."

#### Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to information contained in the Company's Proxy Statement for the 2020 Annual Meeting of Stockholders under the following heading: "Audit Committee-Principal Accountant Fees and Services" and "Election of Directors-Meetings and Committees of the Board of Directors."



[Table of Contents](#)[Index to Financial Statements](#)**PART IV****Item 15. Exhibits, Financial Statement Schedules****(a) 1. Consolidated Financial Statements**

The Consolidated Financial Statements of Mohawk Industries, Inc. and subsidiaries listed in Item 8 of Part II are incorporated by reference into this item.

**2. Consolidated Financial Statement Schedules**

Schedules not listed above have been omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

**3. Exhibits**

The exhibit number for the exhibit as originally filed is included in parentheses at the end of the description.

<b>Mohawk Exhibit Number</b>	<b>Description</b>
*2.1	Agreement and Plan of Merger dated as of December 3, 1993 and amended as of January 17, 1994 among Mohawk, AMI Acquisition Corp., Aladdin and certain Shareholders of Aladdin. (Incorporated herein by reference to Exhibit 2.1(a) in the Company's Registration Statement on Form S-4, Registration No. 333-74220.)
*3.1	Restated Certificate of Incorporation of Mohawk, as amended. (Incorporated herein by reference to Exhibit 3.1 in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998.)
*3.2	<a href="#">Restated Bylaws of Mohawk. (Incorporated herein by reference to Exhibit 3.1 in the Company's Report on Form 8-K dated February 19, 2019.)</a>
*4.1	<a href="#">Indenture, dated as of January 31, 2013, by and between Mohawk Industries, Inc. and U.S. Bank National Association, as Trustee (Incorporated herein by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K dated January 31, 2013.)</a>
*4.2	<a href="#">First Supplemental Indenture, dated as of January 31, 2013, by and between Mohawk Industries, Inc. and U.S. Bank National Association, as Trustee (Incorporated herein by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K dated January 31, 2013.)</a>
*4.3	<a href="#">Second Supplemental Indenture, dated as of June 9, 2015, by and among Mohawk Industries, Inc., as Issuer, U.S. Bank National Association, as Trustee, Elavon Financial Services Limited, UK Branch, as initial Paying Agent and Elavon Financial Services Limited, as initial Registrar (Incorporated herein by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K dated June 9, 2015.)</a>
*4.4	<a href="#">Indenture, dated as of September 11, 2017, by and among Mohawk Capital Finance S.A., as issuer, Mohawk Industries, Inc., as parent guarantor and U.S. Bank National Association, as trustee. (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated September 11, 2017.)</a>
*4.5	<a href="#">First Supplemental Indenture, dated as of September 11, 2017, by and among Mohawk Capital Finance S.A., as issuer, Mohawk Industries, Inc., as parent guarantor, U.S. Bank National Association, as trustee, initial registrar and transfer agent and Elavon Financial Services DAC, UK Branch, as initial paying agent and calculation agent. (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated September 11, 2017.)</a>
*4.6	<a href="#">Second Supplemental Indenture, dated as of May 18, 2018, by and among Mohawk Capital Finance S.A., as issuer, Mohawk Industries, Inc., as parent guarantor, U.S. Bank National Association, as trustee, registrar and transfer agent and Elavon Financial Services DAC, UK Branch, as paying agent and calculation agent. (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated May 18, 2018.)</a>
*4.7	<a href="#">Third Supplemental Indenture, dated as of September 4, 2019, by and among Mohawk Capital Finance S.A., as issuer, Mohawk Industries, Inc., as parent guarantor, U.S. Bank National Association, as trustee, registrar and transfer agent and Elavon Financial Services DAC, as paying agent. (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated September 4, 2019.)</a>

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- \*10.1 Registration Rights Agreement by and among Mohawk and the former shareholders of Aladdin. (Incorporated herein by reference to Exhibit 10.32 of the Company's Annual Report on Form 10-K (File No. 001-13697) for the fiscal year ended December 31, 1993.)
- \*10.2 Waiver Agreement between Alan S. Lorberbaum and Mohawk dated as of March 23, 1994 to the Registration Rights Agreement dated as of February 25, 1994 between Mohawk and those other persons who are signatories thereto. (Incorporated herein by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q (File No. 001-13697) for the quarter ended July 2, 1994.)
- \*10.3 [Second Amended and Restated Credit Facility, dated October 18, 2019, by and among the Company and certain of its subsidiaries, as borrowers, Wells Fargo Bank, National Association, as administrative agent, swing line lender, and an L/C issuer, and the other lenders party thereto. \(Incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated October 18, 2019.\)](#)

## Exhibits Related to Executive Compensation Plans, Contracts and other Arrangements:

- \*10.4 [Service Agreement dated December 18, 2018, by and between Mohawk International Services BVBA and Comm. V. "Bernard Thiers". \(Incorporated by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.\)](#)
- \*10.5 [Second Amended and Restated Employment Agreement, dated as of November 4, 2009, by and between the Company and W. Christopher Wellborn \(Incorporated by reference to the Company's Current Report on Form 8-K dated November 6, 2009.\)](#)
- \*10.6 [Amendment No. 1 to Second Amended and Restated Employment Agreement, dated as of December 20, 2012, by and between the Company and W. Christopher Wellborn \(Incorporated herein by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K \(File No. 001-13697\) for the fiscal year ended December 31, 2012.\)](#)
- \*10.7 [General Release and Separation Agreement, dated as of November 12, 2018, by and between Brian Carson and Mohawk Carpet, LLC \(Incorporated by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.\)](#)
- \*10.8 [Employment Agreement dated December 29, 2018, by and between Mohawk Carpet, LLC and Paul F. De Cock \(Incorporated by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.\)](#)
- \*10.9 [Transition Agreement, dated January 14, 2019, by and between Frank H. Boykin and Mohawk Industries, Inc. \(Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated January 14, 2019.\)](#)
- \*10.10 [The Mohawk Industries, Inc. Senior Management Deferred Compensation Plan, as amended and restated as of January 1, 2015. \(Incorporated herein by reference to Exhibit 10.19 in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2015.\)](#)
- \*10.11 [Mohawk Industries, Inc. Non-Employee Director Stock Compensation Plan \(Incorporated herein by reference to Exhibit 10.22 in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2017.\)](#)
- \*10.12 [Mohawk Industries, Inc. 2007 Incentive Plan \(Incorporated herein by reference to Appendix A of the Company's Definitive Proxy Statement on Schedule 14A \(File No. 001-13697\) filed with the Securities and Exchange Commission on April 9, 2007.\)](#)
- \*10.13 [Mohawk Industries, Inc. 2012 Incentive Plan \(incorporated herein by reference to Appendix A of the Company's Definitive Proxy Statement on Schedule 14A \(File No. 001-13697\) filed with the Securities and Exchange Commission on April 3, 2012.\)](#)
- \*10.14 [Mohawk Industries, Inc. 2017 Incentive Plan \(incorporated herein by reference to Annex B of the Company's Definitive Proxy Statement on Schedule 14A \(File No. 001-13697\) filed with the Securities and Exchange Commission on April 6, 2017.\)](#)
- 21 [Subsidiaries of the Registrant.](#)
- 23.1 [Consent of Independent Registered Public Accounting Firm \(KPMG LLP\).](#)
- 31.1 [Certification Pursuant to Rule 13a-14\(a\).](#)
- 31.2 [Certification Pursuant to Rule 13a-14\(a\).](#)

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32.1	<a href="#">Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2	<a href="#">Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
95.1	<a href="#">Mine Safety Disclosure pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Indicates exhibit incorporated by reference.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Mohawk Industries, Inc.

February 28, 2020 By: /s/ JEFFREY S. LORBERBAUM  
**Jeffrey S. Lorberbaum,**  
*Chairman and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

February 28, 2020 /s/ JEFFREY S. LORBERBAUM  
**Jeffrey S. Lorberbaum,**  
*Chairman and Chief Executive Officer*  
*(principal executive officer)*

February 28, 2020 /s/ GLENN LANDAU  
**Glenn Landau,**  
*Chief Financial Officer and Executive Vice President*  
*(principal financial officer)*

February 28, 2020 /s/ JAMES F. BRUNK  
**James F. Brunk,**  
*Vice President and Corporate Controller*  
*(principal accounting officer)*

February 28, 2020 /s/ FILIP BALCAEN  
**Filip Balcaen,**  
*Director*

February 28, 2020 /s/ BRUCE C. BRUCKMANN  
**Bruce C. Bruckmann,**  
*Director*

February 28, 2020 John M. Engquist,  
*Director*

February 28, 2020 /s/ RICHARD C. ILL  
**Richard C. Ill,**  
*Director*

February 28, 2020 /s/ JOSEPH A. ONORATO  
**Joseph A. Onorato,**  
*Director*

February 28, 2020 /s/ WILLIAM H. RUNGE III  
**William Henry Runge III**  
*Director*

February 28, 2020 /s/ KAREN A. SMITH BOGART  
**Karen A. Smith Bogart,**  
*Director*

February 28, 2020 /s/ W. CHRISTOPHER WELLBORN  
**W. Christopher Wellborn,**  
*Director*